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BUSINESS MANAGERS' INFLUENCE ON GOVERNMENT:
CASE STUDY OF PARTICIPATION IN THREE PROCESSES
OF GOVERNMENT POLICY FORMULATION IN MANITOBA

by

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Submitted in partial fulfillment
of the requirements for the degree of
Doctor of Philosophy

Faculty of Graduate Studies
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London, Ontario

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To the memory of my
Dad.

ABSTRACT

Increasing government involvement in the economy shifts many decisions from the business sector to the public sector. This creates problems for the business manager responsible for formulation and implementation of corporate strategy. He loses control over factors which affect results for which he is responsible.

Participation in the process of government policy formulation can keep business managers informed of developments, and possibly slow down the rate of increase in government control. Improper participation can result in failure to influence the process and in creation of greater frustration and uncertainty. Often, the action needed to effectively participate in the process is not clear.

The objectives of this research were to first describe, then assess and comment upon business managers' participation in the process of government policy formulation. These objectives were to provide an understanding of effective and ineffective business managers' participation and how it can be improved.

Data on business managers' participation in the process of government policy formulation were gathered from three case studies in Manitoba: The Automobile Insurance Act, The Drug Substitution Legislation, and The Manitoba Mining Policy. The effectiveness of business managers' participation in the three cases was assessed by examining their impact upon the outcome of the government policy formulation process. Actions by government representatives and business managers were examined to determine their impact upon the effectiveness of business managers' participation. The points in the process where business man-

agers' actions were taken and their persuasiveness were considered. The planning which preceded business managers' actions, and the experience and training of business managers relevant to participation in the process of government policy formulation were examined to determine their impact upon the types of actions taken.

In all cases participation by business managers was not effective in either bringing about system outcomes desired by business managers or preventing system outcomes they did not desire. This resulted from a combination of factors.

There were pressures from government and public representatives for the system changes. In addition, business managers did not always take the most appropriate actions. By neglecting to take actions at early stages of the process of government policy formulation and directing most of their actions at politicians while ignoring civil servants they missed some very crucial points of the process. Additionally, many of their actions were not persuasive. Lack of planning for actions and an absence of training for, or experience in, the process of government policy formulation contributed to the failure of business managers to take more effective actions.

Active participation in the process of government policy formulation by business managers is necessary. However, the case material indicates that active participation by itself will not guarantee effectiveness. Knowledge of the process of government policy formulation, action at the various stages, persuasive argument and planning for action is necessary. The political, analytic and leadership skills necessary for applying these concepts are also necessary, as is an outward looking, positive, open-to-negotiation attitude. Greater efforts should

be made by business managers to acquire such knowledge, skills, and attitudes either by specific training programs or by hiring people who possess them.

ACKNOWLEDGEMENTS

I owe a great debt of gratitude to all those who provided me with information for the case studies. Without their willingness to talk to me, and in many cases provide access to their files, this research project would not have been possible. Due to the large number of people who contributed information, and because many of them requested confidentiality for their remarks, I feel it best to thank them as a group. I hope the completed research will be of some value to them and to others.

The opportunity to work with Professor D.H. Thain was invaluable to this research. His assistance in going through numerous drafts of the proposal, and the thesis, are greatly appreciated.

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Chapter 1

INTRODUCTION

Increasing government involvement in business is one of the most important changes today's business managers must deal with. Thain says, "Increasing government controls of business are tending in many industries toward the take over of the private sector and the rights and functions of management."¹

Numerous examples can be found to provide evidence of increased government relevance to business. An initial review of 1971 annual reports of four leading Canadian companies revealed twenty-three references to policies of various governments. The same companies' 1962 annual reports contained only six references to government policy.

A subsequent examination of fifty 1971 annual reports randomly selected from the Toronto Stock Exchange Industrial Index indicated 188 references to government policy. This is almost four per company.

Problems for Business Managers

Apart from the broad question of whether increased government involvement is good for society as a whole, its existence creates significant problems for business managers in formulation and implementation of corporate strategy. Business managers still have responsibility for corporate results but, in many cases, their

authority to make major decisions is decreasing because of increasing government activity. As government involvement increases political decision criteria will become more important relative to economic criteria.

Difficulties in formulation and implementation of strategy create frustration, uncertainty and discouragement for business managers. The following excerpts from two of the cases studied in this project are indications of reactions of managers to government action.

* * * * *

Changes in Ontario taxation will mean a seventy-five percent increase in mining tax rates for companies operating in that province. ... these changes, and those in Manitoba mineral policy, cause confusion and uncertainty and tend to have a decreasing effect upon everyday activities and make long-range planning an impossibility.

How can any company play the game when it doesn't even know what the rules are and, even worse, knows that they can be changed at any time without consulting the players?²

* * * * *

The long vigil is over. To those who spent so many hours at the Public Utilities Committee hearings, in the hallways of the Legislative Building and in the gallery -- it was a heart breaking, soul destroying experience.³

Future Considerations

As government continues to become more involved with industry, business managers will continue to encounter problems of separation of decision authority from responsibility and political criteria being applied to decisions in addition to, or in place of, economic criteria. There will be a need for more joint planning and decision making by

government and business. For this to happen business must have the ability to participate in the government policy process. If business does not, or cannot jointly participate in planning it will still be done by government, but with less business input.

Options for Dealing with Government

Managers have a spectrum of choices about how they will participate in the formulation of government policy (Exhibit 1.1). At one end of the spectrum business managers can opt for minimum participation and adapt their operations to whatever political environment is created. No attempt to influence government policy is made. It suggests the Friedman position that "the social responsibility of business is to increase its profits,"⁴ without engaging in extensive political activity.

At the other end of the spectrum is the option to actively attempt to influence the nature of the firm's political environment. This implies a concentrated, co-ordinated set of actions to attempt to influence government policies. This option is advocated by Preston and Post who says that, "as public policy becomes an increasingly important consideration in the process of management, such participation can be expected to become more widespread and significant."⁵

Between the two extremes is the option of limited participation in the government process. This essentially implies an unco-ordinated, ad hoc approach to participation in the government process. Actions such as isolated briefs to a legislative committee, or speeches to community groups would be characteristic of this general approach. Thain indicates this is typical of action by Canadian business.

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Exhibit 1.1

Options for Business Managers' Participation
in the Process of Government Policy Formulation

Minimum Participation	Limited Participation	Active Participation
<ul style="list-style-type: none">- No attempt to influence government- Adapt to whatever political environment created✓ Disinterested, or assumes that government will take correct action	<ul style="list-style-type: none">- Occasional actions to attempt influence of the e.g., speeches to community groups, briefs to legislative committees, talking to elected representatives on a limited, ad hoc basis	<ul style="list-style-type: none">- Concentrated, coordinated efforts to influence the government process- Participate in shaping the political environment- Recognizes that the future of the industry and public benefits depends upon bringing all possible expertise to bear in formulation of government policy

managers. 6

In addition to the question of how much effort to devote to participation in the government process is the problem of what type of action to take. Decisions regarding type of action to take to be effective are not easy, as illustrated in the following comment by Don Harper, formerly of the Pharmaceutical Manufacturers Association of Canada.

Representations have been made to all those investigating bodies, to the professions of medicine and pharmacy, to federal and provincial governments and opposition members, to federal and provincial civil servants, the press and others - not once but time after time, using solid, factual, compelling material.

Some say 'All we have to do is tell our story.' This implies that if we find the right words our troubles will go away. They won't.

The fact is that we have 'told our story' often, and frequently well. But finding the right words will not make our troubles go away. We have told our story -- but we have not 'made our case' yet. Because making our case is not a matter of an article, a brief or an advertisement.

Objectives of Research

Given the problems discussed above this research was conceived with the general objectives of first describing, and then assessing and commenting upon business managers' participation in the process of government policy formulation. It is felt that since there has been little research in the Canadian government-business area the project is of academic importance. It is also of interest to business managers who must decide how to respond to increases in government activity in their industries.

Describing Business Participation

A number of things are implied in the objective of describing

business managers' participation in the government policy formulation process. These can be regarded as sub-objectives. The first thing is to describe the process of government policy formation. The second is to describe how business managers participated, and the third is to indicate the changes brought about by the government policy formulation process.

Assessing and Commenting Upon Business Participation

The objective of assessing and commenting upon the description of business managers' participation in the government policy formation process also included a variety of sub-objectives. In the sequence in which they appear in the analysis, these include:

- (a) Determining system changes resulting from the process of government policy formation.
- (b) Determining whether business managers' participation is successful in bringing about their desired system changes or preventing undesired ones.
- (c) Determining whether participation by business managers is equally successful, or unsuccessful in all three cases.
- (d) Comparing a model of the process of government policy formation from the literature with what actually happened.
- (e) Comparing models of business participation from the literature with how business managers actually participated.
- (f) Determining whether business participation differs, if at all, from one business group to another.
- (g) Considering reasons why business managers participated as they did.
- (h) Indicating how to improve business participation.

Research Questions

A central set of research questions the objectives could be

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related to was necessary to give focus to the research. There is one general question with four parts. The general question is:

How did business managers participate in the process of government policy formation?

The parts, or sub-questions are:

- (a) Were actions by business managers successful in bringing about system changes they desired, or in preventing system changes they did not desire?
- (b) At what point(s) of the government policy formulation process were actions taken by business managers?
- (c) Were business actions formulated in a planned or unplanned fashion?
- (d) Were the actions taken by business managers presented in a persuasive fashion?

The objectives of the study were directly addressed by these research questions. A description of how business managers participated in the government policy formulation process resulted from answering the questions, as did an assessment and comment upon business managers' participation.

Hypotheses

The hypotheses were directly related to the research questions. Specific hypotheses dealt directly with the manner of business managers' participation in the process of government policy formulation. They were:

- (a) Actions by business managers will tend to be concentrated at the later stages of the process of government policy formulation.
- (b) Business actions in the process of government policy formulation were decided upon in an unplanned fashion.
- (c) Business managers would not tend to present their arguments in the process of government policy formulation in a persuasive fashion.

Specific hypotheses about the process of government policy formulation were not stated because this area was viewed as a political science concern, not one for primary investigation by business research. The system effectiveness of business managers in influencing the process of government policy formation, the explanation of why business managers participated as they did and guidelines for future action were regarded as topics requiring exploratory research before meaningful specific hypotheses could be formulated about them. The approach was to formulate specific hypotheses about the nature of business participation in the government policy formulation process but not about the related areas.

Research Methodology

The Evidence

The data of this research consist of case studies of three processes of government policy formulation in Manitoba. The three cases are the automobile insurance legislation (1970),* the drug substitution legislation (1972), and the Manitoba mining policy (1974).

These cases were selected for a number of reasons. Manitoba was selected as the location for case study because: its NDP government was a forerunner among Canadian provinces with respect to government intervention in business, these people were involved in the formulation process, and they were more accessible to the researcher than in a larger province or the Federal government.

Some of the reasons for selecting these specific cases were:

*The number in brackets indicates the year legislation was introduced.

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they represented a service, a secondary manufacturing and a primary resource industry; the issues were among the most significant in Manitoba during the time period; they all represented legislative, as opposed to regulatory, processes; they were chronological (i.e., 1970, 1972 and 1974); they represented different governmental policy approaches including nationalization, legislative control and imposition of regulatory controls.

The data were gathered from published sources and from numerous personal interviews with participants in the processes.

The Analysis

The objective of description of business participation in the process of government policy formulation is satisfied by preparation of the three case studies indicated above.

Assessing and commenting upon the case material draws upon the theoretical considerations outlined later. Evaluation of the process of government policy formulation, and participation by different business representatives in it, involves comparison of case material with models developed from the literature. The relevant criteria for judging the models are whether they provide good descriptions of, and insight into, what happened.

Analysis of the changes brought about by the process of government policy formation involves comparison of the company-environment system before and after the process. Relative positions of business and government, and the apparent affects on the public, are examined. Evaluation of the effectiveness of business managers' participation is

based upon system changes. If major changes, undesirable to business managers, occur, or if they are unable to bring about changes desired, their participation is regarded as ineffective. If changes favourable to business managers occur, or if proposed changes undesirable to them are prevented, their participation is regarded as effective.

Evaluation of why business managers participated as they did, and guidelines for future more effective action by business managers, explore some ideas suggested by the literature, some mentioned by interviewees, and some which evolved over the course of the study.

Summary of Terminology Used

The terminology used in the study was not taken directly from any single source. It was where appropriate, based upon the theoretical concepts utilized in the study.

- (a) Business group - any profit oriented company, proprietorship, or industry (association).
- (b) Non-business group - encompasses such groups as the government, the cabinet, opposition parties, civil service groups, labour, citizens groups, Legislative Committees, etc.
- (c) Business managers - any individual, or his representative, making decisions for and acting on behalf of a profit oriented company, proprietorship or industry.
- (d) Action - a communication, of any sort, by one group directed at any other group or groups involved in the process of policy formulation.
- (e) Stages of the Process of Governmental Policy Formulation
 - (i) Societal Need - basic underlying factors that provided the basis, or justification, for subsequent legislation.
 - (ii) Recognition of Need - perception of the need arising from the basic underlying factors referred to in societal need. Evidence of Recognition of a need

includes such things as Royal Commission Reports, Legislative Committees, concern expressed by the public, press and politicians, etc.

- (iii) Articulation of Demand - proposals advocated by groups or individuals as solutions to the perceived need.
- (iv) Decision to Proceed with Legislation - In the first instance there is a decision to proceed toward legislation respecting an area of perceived need. (Proceed toward, because it may be decided to not follow the process through to an actual legislative outcome for one reason or another.)

There is also a decision on what procedure is to be followed to determine what the actual details of the legislation are to be.

- (v) Determination of Nature of Legislation - the analysis, discussion and debate involved in deciding what the details of the legislation are to be before it is drafted.
- (vi) Drafting of Legislation - the activity and work involved in converting the proposals into a piece of legislation.
- (vii) Legislative Consideration --

First reading
 Second reading
 Committee and report from committee
 Report from committee
 Third reading
 These are the standard legislative stages.

- (viii) Formulation of Regulations - the formulation of any regulations necessary to implement the legislation passed.

(f) Nature of the Process of Government Policy Formulation - Because the various stages of the process of government policy formulation were to be examined to determine whether the rational, organizational or political model provided the greatest insights into them it was necessary to establish some criteria for each.

- (1) A Rational Process would be characterized by features such as:

- a unitary or commonly accepted set of goals among all involved.

- an objective analysis of a set of alternatives based upon the unitary set of goals, i.e., analysis of alternatives by agreed upon criteria will be based upon anticipation of future problems and a good knowledge (size-up) of the government system.
- the outcome or state is a response to the set of goals, and is stated as single response, or timed sequence of conditional moves (not just one action at a time).
- primary characteristic is analysis.

(ii) An Organizational Approach would be characterized by features such as:

- action which is a reaction to pressing problems rather than based upon problems anticipated well in advance.
- responsibility for attending to problems is assigned to specific sub-units of the organization.
- the problem is responded to in terms of a set of standard operating procedures or pre-established routines.
- alternatives similar to what was done when similar problems were encountered previously are examined first and only if these are found infeasible is search for new alternatives begun.
- primary characteristic is that actions taken will be similar to those taken previously in similar situations.

(iii) A Political Approach would be characterized by features such as:

- different people, possibly some from different organizations will be actively involved in attempting to influence the outcome.
- the different people involved may, and likely will, have different views of how things should be done.
- differences will be resolved through a process of bargaining.
- the power, (a combination of bargaining advantages, skill and will in using advantages, and the perception of these first two by others) of the various individuals involved will be a primary determinant of the outcome.
- primary characteristic is that actions are decided upon by bargaining.

- (g). Point of Action by Business Representatives - a combination of the stage of the process of governmental policy formulation at which the action occurred and the group to which the action was directed.
- (h). Effective Action - business participation in the process of governmental policy formulation which resulted in the occurrence of results desirable to business managers, or the prevention of results undesirable to business managers.
- (i). Ineffective Action - business participation in the process of government policy formulation which either did not prevent changes undesired by business managers or failed to achieve changes desired by business managers.
- (j). Planned or Unplanned Actions by Business Representatives - the distinction between planned and unplanned business action was made by defining planned actions as those arrived at in a manner best understood in terms of the rational model referred to with respect to the nature of the process of governmental policy formulation. Unplanned actions were those arrived at by a process best understood in terms of either the organizational or political models, also referred to earlier. The criteria for assigning the process by which business actions were decided upon was the same as those referred to above for the nature of the process of governmental policy formulation.
- (k). Characteristics of Business Participants - data on characteristics of relevant business group members was briefly examined as a basis for explanation of the business group actions taken and their process of formulation. The data were collected in unstructured interviews with participants in and observers of the process of governmental policy formulation. The general areas in which data were collected included: background of the participants, dominant personal characteristics, ideological framework, business representatives knowledge of the political process, factual knowledge of activities of others.
- (l). System - a combination of related parts which together form a unitary whole. In describing a system it is useful to enumerate the set of factors included and to describe the process by which they are related and through which they interact.

Summary

This chapter outlined problems of formulation and implementation of corporate strategy faced for business managers as a result of the trend toward more government involvement in business. Following from the statement of the problem the dual research objectives of

describing business participants in the process of government policy formation and then assessing and commenting upon it were outlined. Subsequently the research questions, and hypotheses were outlined. The research methodology was indicated and terminology used in the study was outlined.

In subsequent chapters the theoretical basis for evaluating and commenting upon business participation is outlined and the research methodology is outlined in greater detail. Subsequent to this the three case studies are presented, each followed by a chapter to evaluate and comment upon the particular case. An analysis chapter which considers features of all three of the cases is included just before a summary statement of the findings and conclusion of the study. The final chapter presents recommendations for improved future participation in the process of government policy formation by business managers.

¹D.H. Thain, The Strategic Problems Confronting Corporate Top Managers in Canada: A Framework for Description, Analysis, Research and Future Action Planning, London, Ontario: The University of Western Ontario, August 1974, p. 1.1 (mimeographed). Other writers in addition to Thain have noted a similar trend to increased government control. For example, Adolf A. Berle, in Power (New York: Harcourt, Brace and World, 1967), p. 262 said that "enhanced social control over economics is unavoidable."

²Excerpts from remarks by H.A. McKenzie, President of Hudson Bay Mining and Smelting Ltd., to annual meeting of company on April 26, 1974; reported by the Winnipeg Free Press, April 29, 1974.

³Excerpts from an August 18, 1970 letter by George Tatlock, President of the Insurance Agents Association of Manitoba to members of the Association. The letter was written in the week after passage of the Automobile Insurance Act.

⁴Milton Friedman, "The Social Responsibility of Business is to Increase Its Profits," New York Times Magazine, September 30, 1970.

⁵Lee E. Preston and James E. Post, Private Management and Public Policy (Englewood Cliffs, New Jersey: Prentice Hall, 1975), p. 147.

⁶D.H. Thain, "The Coming Crunch in Federal Government-Business Relations," The Business Quarterly, Autumn 1971.

⁷Excerpts from a speech by Don Harper, Public Relations Director of the Pharmaceutical Manufacturers Association of Canada. The speech was made to a group of drug company officials in the United States.

Chapter 2

THEORETICAL BACKGROUND

Introduction

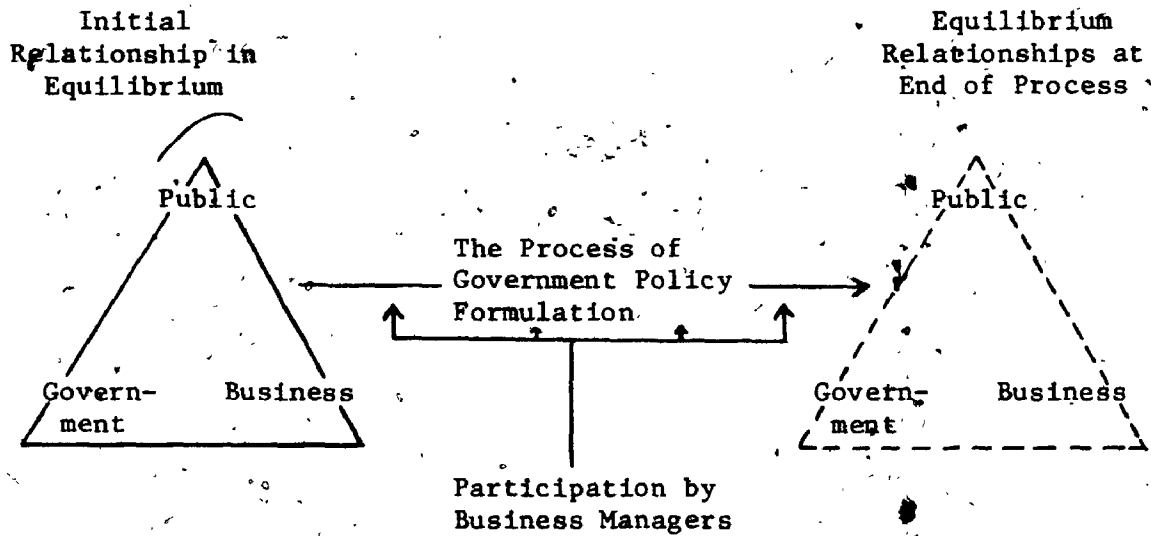
This chapter contains theoretical background material relevant to the study. The literature reviewed relates to the company-environment system, stages of government policy formulation, the process of government policy formulation, point(s) of participation in the process of government policy formulation by business managers, persuasiveness of actions by business managers, and inputs to business actions.

The theoretical material was used as a general guide for collection of case data. Its primary use, however, was as a basis to evaluate and comment upon the data.

General Research Framework

In this study it was considered that the relationship between business, government and the public was in equilibrium initially. Then developments occurred which threw the relationship out of equilibrium. A process of government policy formulation ensued, the result of which was a new equilibrium. However, at the new equilibrium there were different relationships between business, government, and the public. One of the participants in the process of government policy was the group of business managers (Exhibit 2.1).

Exhibit 2.1

The Research Framework

Government, business and the public and the relationships between them were considered to be a company-environment system. Changes in relationships from the initial situation to the end of the process were viewed as system changes. This made a review of literature on company-environment systems necessary.

The process of government policy formulation is the mechanism by which system changes occurred. The stages of the process of government policy formulation and alternative models of government decision are the two areas of literature reviewed in this regard.

Literature relevant to participation by business managers in the process of government policy formulation is also reviewed. It concentrates upon the point(s) and persuasiveness of business actions. Also considered are inputs to business actions.

The Company-Environment System

The environment of a firm, according to Christensen, Andrews

and Bower, is "the pattern of all the external conditions and influences that affect its life and development."¹ An understanding of the environment and its relationships to his firm is critical to the success of a general manager. Various types of external influences and conditions are political, economic, social, technological, ecological and physical.² The environment can be viewed as an industry, a country, a trading block, as worldwide, or as the universe.³

The environment is a larger system with which the firm, itself a system composed of interrelated parts, interacts. Together they comprise the company-environment system. (Exhibit, 2.2).

The model of the company-environment system used in this study was a simplified model of the provincial system encompassing the government, the industry being considered, and the public.

The Process of Government Policy Formulation

To evaluate and assess business participation in the process of government policy formulation, it was first necessary to have an understanding of the process.

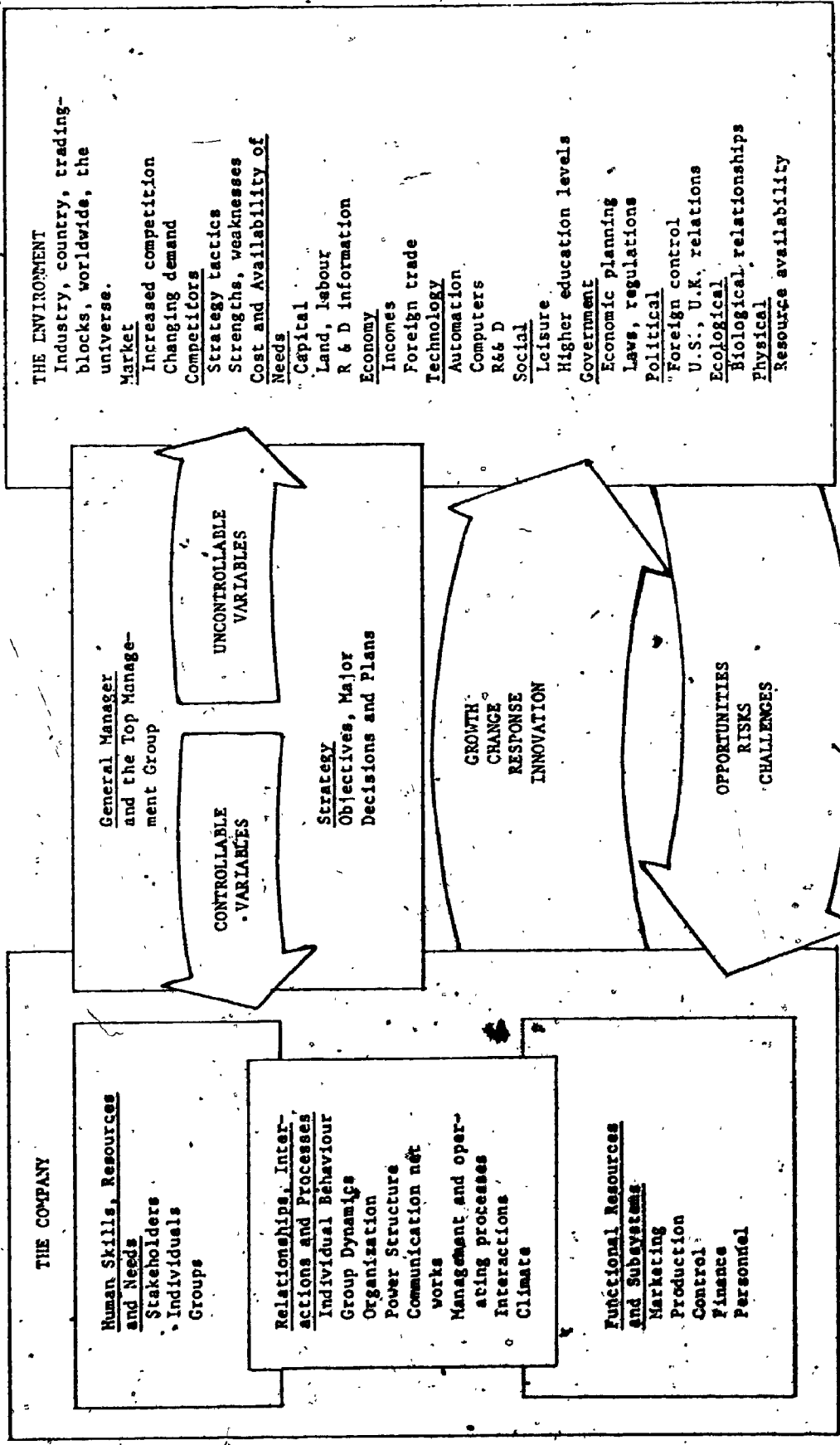
Literature on the stages associated with the formulation of government policy is outlined first. The next consideration was examination of literature on the nature of the decision process at the various stages. This involved consideration of the participants and determinants of outcomes at various stages.

Stages of Government Policy Formulation

Von Peterffy and Levin state that circa 1967 no conceptual

Exhibit 2.2

The Company-Environment System



Source:

Professor D.H. Thain, "Introduction to General Management," The University of Western Ontario, n.d., p. 3 (Mimeographed).

model could be found in the literature for the evolution of a public policy issue from its inception to the time legislation was enacted.⁴

Von Peterffy constructed a four stage model as follows:⁵

<u>Stage</u>	<u>Appellation</u>	<u>Characteristics</u>
1	Inception	The conditions necessary for a public policy issue exist but are unrecognized.
2	Recognition	The issue is still latent, having been recognized by individuals and interest groups. However, it has not yet received attention in lay publications, news media and other general mass media.
3	Opinion Formation and Crystallization	Public opinion begins to form and ultimately if the condition persists, open discussion of the issue takes place in these media.
4	Legislative Process	This phase is identified by the taking of action by established legislative and judicial bodies with the power to represent and arbitrate.

Finer,⁶ in his study of the lobby in Great Britain, makes reference to the legislative cycle in a parliamentary system of government. He indicates two basic forms of the government policy formulation process.⁷ The first of these, involving the passage of 'party programme' bills, is for parties to form their own policies, usually in the pre-election period. Policies, he indicated, are usually framed while in Opposition, so party members cannot draw upon the civil service for advice. They rely upon working committees of the party, who in turn seek advice from the lobby. Finer defined the lobby as "the sum of organizations insofar as they are occupied at any point of time in trying to influence the policy of public bodies in their own chosen direction; though (unlike political

parties) never themselves prepared to undertake the direct government of the country."⁸ Following election the victorious party will usually sound out interested parties before preparing a bill. After a bill is prepared, it is given first, second and third reading in Parliament. The establishment and execution of the administration of the bill follow Parliamentary passage.

The second type of legislation mentioned by Finer is "official" legislation. "Official" legislation results when a bill which had been passed does not work as it is intended or desired to, requiring changes in it. Bills of this type are drawn up by civil servants, taking into account the views of interested parties. Sometimes an enquiry such as a departmental committee, select committee or full-scale Royal Commission will proceed introduction of this type of bill. The "official" type of legislation will usually get a smoother passage through Parliament than a "party programme" bill, partly because it is less controversial but also because it has taken the lobby's views into account.

Whalen pictures the formulation of public policy as a function of two things; "first, the broad environmental forces, operating in society, and, second, the structural-functional properties of the political system."⁹ Environmental forces produce a reservoir of human needs, aspirations, values, goals and interests which enter the political system as inputs. Some social or environmental wants are converted into demands and these demands, in turn, are combined with other demands, aggregated or reduced to form bargaining packages. In other words, environmental pressures create needs which participants in the process of governmental policy formulation such as politicians,

bureaucrats or business representatives respond to and convert, on occasion, to demands for legislation.

The model of the process of government policy formulation tested on the basis of its descriptive power in this project is a combination of the three approaches above (Exhibit 2.3). The first key element is that a need of some sort is recognized as the initial requirement for future legislation. The need has to be articulated as a demand before further development occurs. Subsequently, a decision to proceed toward legislation is made, the nature of the legislation is determined, legislation is drafted, it receives legislative consideration, regulations are formulated and finally the bill is proclaimed. Following this is implementation of the bill.

The Process of Government Policy Formulation

The process of government policy formation can not be adequately described by just outlining its stages. Some basis for understanding the participants at the various stages and how outcomes are determined at the various stages is necessary.

Three alternative models for looking at the process by which outcomes at various stages were arrived at are outlined: a rational model, an organizational model and a political model. These models are not mutually exclusive, though, they do suggest different emphasis, or points of view. The process leading to outcomes at various stages of government policy formulation will be examined from each of these viewpoints to determine which one of them provides the greatest insight into, or understanding of, the nature of the process.

Exhibit 2.3

Various Stages of the Process of
Government Policy Formulation

Von Pererffy	Finer		Whalen	Composite	Characteristics
	Party Program Bills	"Official" Legislation			
1. Inception		previously passed bills didn't work as intended	needs great- ed by environ- mental forces	(a) societal need	conditions are such that a problem exists because of some reason but as yet it has not been identified
Recognition				(b) recognition of	certain people become aware of the fact that there is a problem and begin probing for, and offering tentative explana- tions of the cause of the problem
Opinion for- mation and crystalli- zation	Form poli- cies in opposition		needs con- verted to demands	(c) articulation of demand	certain people or groups become convinced that they have solutions to the problem and become advocates of the position

Exhibit 2.3 (continued)

Von Peterffy	Election	Finer	Whalen	Composite	Characteristics
	Decide to proceed			(d) decision to proceed toward legislation	a decision is made by an executive political group (cabinet, cabinet committee, etc.) to begin consideration of how to deal legislatively with the problem. In addition to the decision to begin the legislative process the means by which the enquiry will be handled is also specified
Consult interested parties	Civil servants elaborate details (consult with others)	Demands converted to outputs		(e) determination of nature of the legislation	the analysis and political consideration involved in arriving at a decision. The outcome of this stage may be a decision to not proceed with legislation
Prepare bill	Prepare bill			(f) drafting of legislation	the activity involved in writing up the legislation
Legislative process	-first reading -second reading -committee	-first reading -second reading -committee		(g) legislative consideration -first reading -second reading -committee	consideration of the bill by the Legislature

Exhibit 2.3 (continued)

Von Peterffy	Finer		Whalen	Composite	Characteristics
	-third reading	-third reading		-third reading -royal assent	
Establishment and execution of administration				(h) Formulation of regulation	the process of decision upon and drafting regulations to the act. Also involved at this stage is a decision concerning who will formulate the regulations
				(i) Proclamation	
				(j) Implementation	the activities involved in administering the legislation

Government Policy Formulation as a Rational Process

The rational model of policy formulation has been well developed. Lindblom indicates the literature of decision-making, policy formulation, planning, and public administration formalizes the rational approach.¹⁰

Aucoin¹¹ says, "highly prescriptive rationalist models of policy-making ... have been presented not only by such investigators as Lasswell but, more importantly, by those economists who attempt to use the market model as a device to explain why policy-makers act as they do. These rationalist models have suggested that policies are formulated through a series of sequential steps where the policy makers (1) recognize a policy problem exists, (2) identify the nature of the problem through investigations, (3) call for the presentation of alternatives, (4) rank their priorities, (5) make predictions on the risks and consequences of the various alternatives, and finally, (6) come to a decision by combining the qualitative and quantitative values they have considered."¹²

Allison¹³ indicates that the basis of the rational approach to government decision is that government action is viewed as a choice. He indicates that government action is a choice with regard to an objective. Once the objectives, or ends toward which the action was directed, have been determined the action is understandable.

The basic units of the rational model, according to Allison are:

- (1) A unitary governmental actor or decision-maker. The decision-maker has one set of specified goals, one set of perceived options, and a single estimate of the consequences that would follow from each alternative.
- (2) Action chosen in response to the strategic problem faced.
- (3) Action is conceived of as a single, all encompassing choice among alternative outcomes rather than, for example, a large number of partial choices in a dynamic stream.
- (4) Action was viewed as a rational choice based upon goals and objectives. Options and consequences of options were considered so that the decision-maker unit could choose the value maximizing option whose consequences ranked highest in terms of the goals and objectives.

Governmental Policy Formulation as
an Organizational Process

The basic elements of the organizational model as it applies to government policy formulation are outlined by Allison¹⁴ based on his interpretation of Cyert and March.¹⁵

The central concepts are:

- (a) Organizational actors, i.e., the unit taking action is not monolithic. It is a constellation of loosely allied organizations on top of which government leaders sit. The constellation acts only when component organizations perform routines.
- (b) Factored problems and fractionated powers, i.e., problems have to be assigned to various agencies because no single one is capable of handling all of them. Power has to accompany this parcelling out of responsibility. This assigning permits more specialized attention to particular facets of problems than possible if government leaders try to cope with the problems by themselves.
- (c) Parochial priorities and perceptions, i.e., primary responsibility for a narrow set of problems encourages organizational parochialism. Organizations develop relatively stable propensities concerning operational priorities, perceptions and issues.
- (d) Action is viewed as an organizational output with organizational actions being the resultant of a process characterized by goals stated as constraints defining acceptable performance, sequential attention to goals; standard operating procedures, programs and repertoires, uncertainty avoidance, problem-directed search, organizational learning and change.
- (e) Central co-ordination and control is required because problems often overlapped a number of departments.
- (f) Decisions of government leaders, i.e., even though there were limits on leadership's abilities to determine changes in a particular organization's goals or standard operating procedures the leader had some control over the output in the selection of what organization(s) would deal with an issue.

The basic implication of this approach for government actions was that they would resemble actions taken in similar situations in the past. In other words, the best explanation of an organization's behaviour at time t is what was done at time $t-1$, the best prediction

of what will happen at time $t+1$ is what was done at time t .

Government Policy Formulation as a Political Process

Another view of the process by which government outcomes are arrived at is provided by the political model. According to this view the basic process in arriving at outcomes involves bargaining and the basic determinant of outcomes is the relative power of the different groups involved.

The model of "successive limited comparisons"¹⁶ advanced by Lindblom views formulation of government policy as a political process. He indicates that values, or objectives of policy are not clearly outlined and agreed upon by all concerned; that the test of whether a policy is "good" or not is whether it can be agreed upon by those concerned (which requires discussion or bargaining); that analysis is not comprehensive because alternatives considered differ only in small degree from what has been done previously, and important consequences of alternatives are not evaluated; and that policy formation is an ongoing, continuous process rather than a one point in time decision.

The model requires bargaining to arrive at agreement on policies.

Whalen¹⁷ presents a bargaining model of the Canadian process of government policy formation. Excerpts from it are as follows:

General Bargaining Model

The basic bargaining units are broad socio-economic aggregates or interests: organized and unorganized labour, forestry, fishing and mining industries, primary and secondary manufacturing industries; agriculture; transportation; defence forces and industries; provinces and municipalities; the business community;

consumers; and even voters. Many other important social and cultural aggregates participate in political bargaining as well: veterans; various disadvantaged groups both organized and unorganized; producers and consumers of educational services and of the mass media; and many others. Thus the basic bargaining units, viewed in the manner, are complex, heterogeneous blocks with varying degrees of coherence and overlapping membership. These socio-economic aggregates are the groups on whose behalf demands are fed into the political system

Conceived in its most general form, the political influence system consists of multi-lateral interactions among basic social aggregates and authorities. But the process is not direct. Aggregates and groups throw up complex patterns of associations. Leaders of these associations, or surrogate (acting for others) bargainers, interact with each other, with their followers, and with leaders of other associations. When engaged politically, they bargain in explicit, implicit and conjectural terms with voters, opinion leaders, influentials, provincial leaders, formal and informal party leaders. More directly, however, they interact with those authorities who have been assigned responsibility by statute to supply group support, or whose policies and programmes affect the interests of group members. The authorities, in this context, include all elected and appointed members of parliament and legislatures, judges, and all appointed members of boards or agencies exercising substantive authority under statutory delegation. These authorities, in turn, bargain among themselves, with their senior officials, with their clientele groups, and with opinion leaders, other influentials, associations and aggregates. In particular, they are engaged in on-going bargaining with the electorate. In this manner the authorities are erstwhile targets of influence, in accordance with the principle of representation, while all nonauthorities are the targets of leadership initiatives aiming at social control and the efficient realization of collective goals. Viewed as a whole, the structure comprises many interrelated clusters of influence and authority roles.

Information inputs for decision arenas flow to authorities directly in the influence arenas, and indirectly from a vast network of informal party functionaries, official aides, non-party influentials, consultants, Royal Commissions, federal and provincial civil servants, and from official observers at international conferences, group meetings and group-sponsored conferences. Further, information is supplied by mass opinion and attitude surveying, media surveillance and by informal contacts with opinion leaders or dissident individuals, groups, and leaders. A part of the same apparatus is used to supply information outputs, in relation to departmental activity, to undertake impression management and departmental public relations and group specialization functions, and to induce compliance with the policy and decisions of authority.

Bargaining Methods

... Bargaining is no simple process. Three separate categories may be distinguished. First, is the explicit bargain, where the terms on both or all sides are clearly understood by the actors. Second, is the implicit bargain, where the terms for at least one actor are clearly established, but where the terms for other party or parties are implied. Third, is the conjectural or tacit bargain, where the terms proposed by all participants must be surmised.

Propensity to Bargain

... It is impossible to describe at length the various conditions which influence a group's propensity to bargain, what methods it will employ, or what action cycles will regulate the direction and intensity of its efforts. A primary stimulant to bargaining, however, is perhaps its awareness that in comparison with other aggregates it is actually suffering deprivation, or is threatened with the loss of former strength and status.

Another author who presents a political model of the process of government policy formation is Allison.¹⁸ In his governmental politics model Allison sees government actions as political results in the sense that what happens is not chosen as a solution to a problem but results from compromise, conflict and confusion of officials with diverse interests and unequal influence. The activity from which decisions and actions emerge is characterized as bargaining.

Allison indicates: participants (or players); the determination of each participant's stand; each participant's impact on the results; and the combination of stands, influence and moves to yield government decisions. These aspects of Allison's model are paraphrased below.¹⁹

(1) Participants

Unlike the rational and organizational approaches respectively, the governmental actor is not a unitary actor or a group of organizations, but instead a number of individuals in jobs. Individuals become participants, or

players, in a policy formulation process by occupying a position hooked onto a policy channel. Types of central players include chiefs (top level decision makers), staffers (the immediate staff of each chief), Indians (government employees within each of the departments and agencies), ad hoc players (actors in the wider government game such as spokesmen for important interest groups, surrogates for each of the groups, some members of the press). Other interest groups, press members, and the general public are outside this central arena.

(ii) Determination of each Player's Stand

A player's stand would be influenced by his parochial priorities and perceptions depending upon the position he occupied. The player's previous experience, before he occupied the position, would also influence his stand as would his personal goals and interests.

Deadlines and events would raise issues and force busy players to take stands. Forcing issues with deadlines would cause players to see issues differently than they might if the issue were raised in another action channel, or time frame.

(iii) Determinant of each Player's Impact on Results

The determinant of a player's impact on results was power. Power was effective influence on government decision decisions and actions. Power was viewed as a blend of bargaining advantages, skill and will in using bargaining advantages, and other players' perceptions of these two elements.

(iv) Combination of Player's Stands, Influence and Moves to Yield Government Decisions and Actions

Action channels are a regularized means of governmental action on a specific kind of issue. Action channels structure the game by preselecting the major players, determining their usual points of entrance into the game, and distributing particular advantages and disadvantages for each game. There are rules of the game which establish the positions, the means by which men get to positions, the power of each position and the action channels. Rules also place limits upon the range of acceptable governmental decisions and actions. Rules of the game arise from the constitution, statutes, court interpretations, executive orders, convention, culture, etc. Some rules are explicit, some implicit. Some clear, some fuzzy. Some stable and some every-changing.

Action is a political resultant with each player using

his power to promote outcomes that will advance his conception of national, organizational, group and personal interests. Other features of the process leading to actions are (a) the environment of uncertainty about what to do and the consequences of taking action; (b) the pace of the game which forces people to fight to get others' attention; (c) the structure of the game (power shared by individuals with separate responsibilities) gives each person the feeling that no one else understands his point of view; (d) the law of the game by which a person who hesitates loses his chance to play forces people to take positions even when uncertain, and; (e) the reward of the game, i.e., effectiveness, or impact on outcomes, encourages hard play.

Primary Differences in the Three Models

The primary distinguishing feature between the three models is the manner in which actions are decided upon. The rational model viewpoint is that actions are primarily determined by analysis, with all participants agreeing upon the organizations goal. The organizational model viewpoint is that because of routine and procedure the primary determinant of actions is what action was taken before in similar situations. The viewpoint of the political model is that actions are the result of bargaining with the primary determinant of what action was taken being the power of the various participants.

The distinguishing features are analysis, tradition and bargaining for the rational, organizational and political models respectively.

Business Participation in the Process of Government Policy Formulation

This section reviews literature on the types of action taken by business representatives, the points in the government policy formulation process where actions were taken, the persuasiveness of

business actions, and the manner in which business actions were formulated.

Lang,²⁰ Galbraith,²¹ and Thain²² all refer directly or indirectly to the points in the process of government policy formation where business managers involve themselves. Neustadt²³ refers to persuasiveness of actions in the process of government policy formulation. The issue of whether business actions are planned or unplanned is directly related to the literature on planning and decision making in the business policy area.

Types of Actions Possible by Business Representatives

Finer referred to different classifications of actions which lobbies use to attempt to get their way. The most common type, he indicates, is 'advice,' or convincing the decision maker by rational argument. However, if rational argument fails, the lobby can resort to techniques of pressure or, "the threat that a sanction will be applied if its request is not met."²⁴

Examples of the first type of action, or advice, includes formal participation in advisory and consultative committees, informal and ongoing contact with government officials at all levels, meeting with government ministers, supplying information to government decision makers and many more. Participation in a national planning process would also be a form of rational discussion.²⁵ Some examples of pressure techniques include: having parliamentary spokesmen speak to a minister on your behalf in caucus or in his office, raising the matter at appropriate government or opposition party meetings, organizing demonstrations, mounting a national propaganda campaign,

and withdrawal of advice and assistance from the ministry.

The examples presented above are not an exhaustive list of all the types of actions business managers could take. They were illustrative, however, of the wide range of possible alternatives for action.

Point of Action by Business
Representatives

The point(s) in the process of government policy formulation, defined in terms of stage of the process and people communicated to, at which business representatives get involved and take action is apparently important for the success of actions. Lang, in a study of the Pharmaceutical Manufacturers Association of Canada's efforts to influence Canadian federal drug legislation indicated that the association didn't understand the role played by civil servants in the period of analysis and drafting of the legislation. He said the PMAC, "attempted to bring pressure to bear on the Members of Parliament when the crucial role was being played by an Inter-Departmental Committee. That committee literally drafted the legislation and, working behind the scenes, defeated the efforts being made by PMAC."²⁶ In other words, business representatives did not take action at an important point in the process. Although they were active at that stage they did not direct their actions at the people who were actually responsible for the outcome of the stage.

Dawson, referring to the Canadian Federation of Agriculture's government related activities said: "The Federation realizes that all its efforts to influence the politicians and the public would come to very little without the continued confidence of the senior

administrators in the government service."²⁷ Referring to the Consumers Association of Canada, Dawson said: "It is apparent that CAC success to date has been a result of the close relationship it maintains with civil servants."²⁸

Finer, referring to the British parliamentary system says there has been an "ever-closer interdependency of the interest groups and Whitehall (the civil service)."²⁹ He then says:

What does the department need from the Lobby? Three things, chiefly. First of all it needs information. No ministry has or can afford to have a staff familiar with all the technical detail in British professional and industrial practise. Next it seeks consents. Since the basis of smooth administration is a favourable public opinion, it is prudent to consult the affected publics prior to final decision. ... Again, the ministry may require the active help of the organization in administering a policy.³⁰

The above statements indicate the very important role of the civil service in formulation of governmental policy. It also suggests that business representatives wishing to participate effectively must maintain contact with civil servants who are involved.

Thain indicates that complex and interrelated political, economic, social, and technological factors and fundamental problems in the federal system made a relatively high level of government control and direction necessary. He argues that as the level of government control increases, "the need for formal and informal organization structures, and due process linking government and business will increasingly be recognized and met."³¹

Galbraith³² proposes that large, technologically advanced, mature corporations have a great deal of influence on government policy because employees participate with public servants in the early analysis and planning stages of projects and legislation. This

is alleged to be the case particularly where government personnel can not duplicate the technical competence of employees of the corporation. The traditional, entrepreneurial corporation, which is not adapted to high technology, does not have a similar relationship with the state. Rather than participating in analysis and planning for governmental actions entrepreneurial firm representatives maintain a purely pecuniary relationship with the governing body. The entrepreneurial firm uses the resources it has to either gain governmental decisions to enhance its revenue potential or defend itself against the state. Galbraith maintains that the entrepreneur's usual source of political influence in the United States is money.³³

Persuasiveness of Business Action

It was felt that effective business actions would take into account the nature of the process of government policy formulation.

Where government outcomes were arrived at by bargaining, influence on the outcome would depend upon effective use of power. In this respect Neustadt³⁴ presents one model of power. He indicates how the personal influence of, specifically, the person holding the office of President of the United States, or the head of any large organization, could be enhanced. The basic premise of his model is that those he wishes to influence must be convinced that what the influencer "wants of them is what they ought to do for their (own) sake and on their (own) authority."³⁵ One of the factors it was felt government representatives would want to take into account for their own sake was the public interest. As Berle³⁶ says, "power is invariably confronted with a field of responsibility," and must

establish a dialogue with the field of responsibility. This is tantamount to saying that a politician must be concerned with the public interest. Combined with the basic Neustadt premise it was deduced that arguments presented to government representatives which had the effect of benefiting the public interest would have a greater likelihood of influencing government outcomes than arguments by business managers which appear self-seeking and intended only to serve the best interests of business.

Neustadt also says the sources of a person's influence are threefold. First, "the bargaining advantages inherent in his job with which to persuade other men that what he wants of them is what their own responsibilities require them to do. Second are the expectations of those other men regarding his ability and will to use the various advantages they think he has. Third are those men's estimate of how his public views him and how their policies may view them if they do what he wants."³⁷

Allison, who bases his governmental politics model on the earlier work of Neustadt, says that the,

sources of bargaining advantages include formal authority and responsibility (stemming from positions); actual control over resources necessary to carry out action; expertise and control over information that enables one to define the problem, identify options, and estimate feasibilities; control over information that enables chiefs to determine whether and in what form decisions are being implemented; the ability to affect other players' objectives in other games, including domestic political games; personal persuasiveness with other players (drawn from personal relations, charisma); and access to and persuasiveness with players who have bargaining advantages drawn from the above (based on interpersonal relations, etc.).³⁸

Neustadt goes on to say that the means the influencer has to enhance his sources of power are through his choices. All decisions

have to be assessed both in terms of their implications from a policy point of view and their implications from the point of view of the power holder. In order to assess choices with respect to their effect on the power holder two things are necessary; information and time to make the assessment.³⁹

Thain, who says that a bargaining model is the basis for formulation of governmental policy, indicates that the "vital ingredients necessary for effective political participation are power and influence applied with clout."⁴⁰ Political clout results from a combination of a good case, presentation of viable alternatives, understanding of government organizations and processes, a constructive helpful attitude, compromise and negotiation, trading position, public acceptance, concentration on a specific issue and a non-partisan approach.⁴¹

Inputs to Business Actions

Process by Which Business Managers Formulated Actions

The process by which business managers decide what action to take with respect to the process of government policy formulation was looked at by this writer as akin to strategy formulation. The manner in which business managers formulated their actions is examined in terms of the same three basic models used to evaluate the process of government policy formulation. They are examined to determine whether the process is best understood in terms of the rational, organizational or political model.

Rational Formulation of Business Actions

The rational or planning approach is discussed by a number of authors including McArthur and Scott,⁴² Thain,⁴³ Learned et al.⁴⁴ and Ansoff.⁴⁵ As a rule it was pointed out that while not all firms plan, many successful managers do, and the number of firms undertaking some planning is increasing.

The characteristics of the rational approach include an analysis, agreed upon by all business participants, which includes: an anticipation of problems or opportunities relevant to a firm based upon a size-up of the company-environment system; and a statement of strategy, or a timed sequence of conditional moves for allocating resources to opportunities in a competitive environment. The strategy is based upon an analysis which requires understanding of the company-environment system and evaluation of a number of solution options on the basis of that understanding.⁴⁶

To classify the formulation of an action as rational or planned the size-up would have to involve an understanding of the participants in, and subject matter of, government policy processes and the potential relevance of the outcomes of these for business organizations. The problems and opportunities created for a company or industry would logically follow from the size-up. Company objectives with respect to what it was wished to accomplish in the process of policy formulation on both a short and long term basis would then be stated and the strategic moves to attempt to secure objectives decided upon after consideration of options. The basic ingredient to be looked for is analysis.

Organizational Approach to Formulation of Business Actions

The organizational approach to deciding upon what actions to take as outlined by Cyert and March is characterized by the assignment of the problem of formulating action to a particular part of the organization which decided upon action in a programmed manner. In other words, action was decided upon by pre-established routines. The process is characterized by Cyert and March according to four basic concepts. These were:

- (1) Quasi-resolution of conflict - potential conflicts within the organization regarding different perceptions of levels and goals are reduced by sequential attention to goals, i.e., first one and then other goals are worked toward.
- (2) Uncertainty avoidance - accomplished by (a) paying attention to problems as they arise rather than anticipating them and formulating long range strategies, and by, (b) negotiating with the environment by such devices as standard operating procedures, plans, industry traditions and uncertainty - absorbing contracts.
- (3) Problemistic search - asserts that search is simple minded and will initially be conducted only in the area of the problem and the current alternative. Only if an acceptable alternative is not found in these areas will search be expanded.
- (4) Organizational learning - occurs over time as the result of experience even though organizational behaviour is relatively stable. Organizational learning produces changes in goals, standard operating procedures, alternatives searched, etc.

The outcome of the organizational process with its sequential attention to problems, standard operating procedures and limited search is, as pointed out in the discussion of the process of government policy formulation, action closely resembling actions taken in the past in similar situations.

Political Formulation of Business Actions

The political approach to formulation of business actions

is similar to the governmental politics model outlined earlier. The approach is chiefly characterized by action as a result of a process of negotiations or bargaining. As Allison states, "What happens is not chosen as a solution to a problem but rather results from compromise, conflict, and confusion of officials with diverse interests and unequal influence; (it is) political in the sense that the activity from which decisions and actions emerge is best characterized as bargaining along regularized channels among individual members of the government."⁴⁸

The individuals involved at different stages each formulate their positions on the basis of their own priorities and perceptions, their goals, interests and stakes, and the time constraints in which decisions must be made. Each individual's impact on the result is determined by his power.

Planned and Unplanned Business Actions

Actions formulated in a manner best characterized by the rational model are viewed as "planned." Actions formulated in a manner best understood in terms of either the organizational or business group politics models are viewed as "unplanned."

Characteristics of Business Participants

It is pointed out by Malek, writing about the United States Federal Government, that the qualities needed by an executive to succeed in private enterprise do not ensure success, and may even work against success, in the public sector of the economy. He writes, "In fact, to succeed in government, the businessman must develop some

qualities that are almost the opposite of those he needed to succeed in business. Where he was persistent, he must now also be resilient; where he was guarded, he must be open, where he was arbitrary, he must be sensitive; where he viewed problems with a narrow focus, he must deal comprehensively with them; and where he was informed, he must be at least a little intuitive."⁴⁹ If these conditions held for a business executive who wished to work in government it is reasonable to assume that business managers who wish to influence the process of government policy formulation should also be prepared to pattern their actions along different lines than they would within the firm.

Verba refers to political culture as the "system of empirical beliefs, expressive symbols, and values which defines the situation in which political actions takes place."⁵⁰ He also says that, "Certain patterns of political style are more likely to develop within particular kinds of belief structures."⁵¹ This indicates that the nature of actions by business representatives in the process of governmental policy formulation will be influenced by their beliefs about the political sector.

Business Understanding of the Governmental Process

Belanger, refers to a lack of realistic understanding of government by business and vice versa.⁵² Thain says that: "Very few businessmen have an adequate understanding of the organizational structure of government and how it functions. Consequently, they are often at a loss as to when and how to get their message into the organization and process effectively."⁵³

Summary

This chapter outlined the theoretical considerations relevant to this study. The purpose of considering these theoretical aspects was, firstly, to provide a basis for developing a model for collection of case data and, secondly, to provide a basis for evaluation of case material after its collection.

The theoretical material discussed was organized around the research framework of the study. This involved developing an understanding of the concept of the company-environment system.

Two areas of literature relating to the process of governmental policy formulation by which changes in the company-environment system were brought about were considered. These were the stages of government policy formulation and the nature of the process of government policy formulation.

Literature relevant to business participation in the process of government policy formulation was also considered. This literature was divided into two sections. The first section dealt with the point(s) of business action in the process of government policy formation, and the second with persuasiveness of business actions. The third with the nature of the process by which business actions were formulated.

A section at the end of the chapter dealt with inputs to business actions. This involved the process by which business actions were decided upon. Business managers' previous experience and understanding of the government process, which would have an effect upon how they participated in the government policy formulation process, was also discussed.

¹C.R. Christensen, K.R. Andrews, and J.L. Bower, Business Policy: Text and Cases, 3rd ed. (Homewood, Illinois: Richard D. Irwin, 1973), p. 229.

²Ibid., p. 229. Christensen, Andrews and Bower indicate political, economic, social and technological factors. Ecological and physical factors have recently been included as relevant, important aspects of the environment.

³D.H. Thain, "Introduction to General Management," (London, Ontario: The University of Western Ontario, n.d., p. 3, mimeographed).

⁴G.A. Von Peterffy, and D.I. Levin, "A Conceptual Framework for an Early Warning System on Public Policy Issues: Teaching Note #EA-R 571" (Cambridge: Harvard Business School, 1970), p. 8.

⁵Ibid., p. 9.

⁶S.E. Finer, Anonymous Empire: A Study of the Lobby in Great Britain, (London, England: Pall Mall Press, 1968).

⁷Ibid., p. 20.

⁸Ibid., p. 3.

⁹H. Whalen, Excerpts from, "Factors Affecting the Formulation and Implementation of Canadian Agricultural Policy, 1964-1968," Unpublished report for the Federal Task Force on Agriculture, 1968, p. 7.

¹⁰C.E. Lindblom, "The Science of Muddling Through," Public Administration Review, Vol. 19, Spring 1959, pp. 77-88: Quoted in H.I. Ansoff, Business Strategy (Middlesex, England: Penguin Books, 1969), p. 41.

¹¹G.B. Doern, and Peter Aucoin, eds., The Structures of Policy Making in Canada (Toronto, Ontario: The Macmillan Company of Canada, 1971), pp. 14-15.

¹²Aucoin cites Richard Zeckhauser and Elmer Schaefer, "Public Policy and Normative Economic Theory," in R.A. Bauer and K.J. Gergen, The Study of Policy Formation (New York, Free Press, 1968), pp. 27-102 as economists discussing the process of policy-making in rationalist terms.

¹³Graham T. Allison, Essence of Decision (Boston, Mass.: Little, Brown and Company, 1971), pp. 32-33.

¹⁴Ibid., pp. 78-88.

¹⁵R.M. Cyert, and J. March, A Behavioral Theory of the Firm (Englewood Cliffs, New Jersey: Prentice-Hall, 1963).

- 16 Lindblom, "Muddling Through," pp. 41-60.
- 17 H. Whalen, "Factors Affecting the Formulation and Implementation of Canadian Agricultural Policy, 1964-68," an unpublished report for the Federal Task Force on Agriculture, 1968, Chapter 1, as presented by D.H. Thain in "The Strategic Problems Confronting Corporate Top Managers in Canada," University of Western Ontario, August 1974 (mimeographed).
- 18 Allison, Essence of Decision, pp. 162-173.
- 19 Ibid.
- 20 R.W. Lang, "The Politics of Drugs: A Case Study of the Pharmaceutical Manufacturers Association of Canada" (Masters Thesis, University of Waterloo), 19.
- 21 J.K. Galbraith, The New Industrial State (Boston, Mass.: Houghton-Mifflin Co.), 1967.
- 22 D.H. Thain, "The Key Issues in Federal Government-Business Relations," The Business Quarterly, Winter 1970.
- 23 R.E. Neustadt, Presidential Power (New York, New York: John Wiley and Sons, Inc.), 1960.
- 24 Finer, Anonymous Empire, p. 24.
- 25 D.H. Thain, "The Strategic Problems Confronting Corporate Top Managers," The University of Western Ontario, August 1974 (Mimeo), and Steiner, Business in Society (McGraw Hill, 1970) refer to an increase in national planning with consequent joint planning. One of the issues raised was who initiated the joint government-business planning, i.e., would it be initiated by business, or by government. Steiner, points to a convergence of government and business planning.
- 26 Lang, The Political of Drugs, p. 11f.
- 27 H.J. Dawson, "An Interest Group: The Canadian Federation of Agriculture," Canadian Public Administration, III, 1960, p. 149.
- 28 H.J. Dawson, "The Consumers Association of Canada," Canadian Public Administration, VI, 1963, p. 117.
- 29 Finer, Anonymous Empire, p. 30.
- 30 Ibid.
- 31 D.H. Thain, "The Key Issues."
- 32 Galbraith, The New Industrial State.

- 33 Ibid., p. 307.
- 34 Neustadt, Presidential Power.
- 35 Ibid., p. 34.
- 36 A.A. Berle, Power (New York, Harcourt, Brace and World, 1967), p. 115.
- 37 Neustadt, Presidential Power, p. 174.
- 38 Allison, Essence of Decision, p. 169
- 39 Neustadt, Presidential Power, pp. 178-180.
- 40 Thain, "The Key Issues", p. 27.
- 41 Ibid.
- 42 J.H. McArthur and B.R. Scott, Industrial Planning in France (Boston, Mass.: Division of Research, Graduate School of Business Administration, Harvard University, 1969).
- 43 D.H. Thain, "Business Policy Course Note (2), The Process of General Management," School of Business Administration, The University of Western Ontario (mimeographed), n.d.
- 44 E.P. Learned, et. al. Business Policy: Text and Cases (Homewood, Illinois: Richard D. Irwin, Inc., 1969).
- 45 H.I. Ansoff, Business Strategy (Penguin Books, 1969) and H.I. Ansoff, Corporate Strategy (New York, New York: McGraw-Hill Book Company, 1965).
- 46 D.H. Thain, "Business Policy Course Note(2)."
- 47 R. Cyert and J. March, A Behavioral Theory of the Firm, (Englewood Cliffs, N.J.: Prentice-Hall Inc., 1963).
- 48 Allison, Essence of Decision, p. 162.
- 49 F.U. Malek, "Mr. Businessman Goes to Washington," Harvard Business Review, September-October 1972.
- 50 C.W. Pye and Sidney Verba (eds.), Political Culture and Political Development (Princeton, New Jersey: Princeton University Press, 1965), p. 513.
- 51 Ibid., p. 550.
- 52 Marcel Belanger, "Relations entre industrie et gouvernement," Commerce, Aout 1972.

⁵³D.H. Thain, "The Key Issues."

Chapter 3

RESEARCH METHODOLOGY

Introduction

In the first chapter the problem addressed by the research is stated, and the purpose and objectives of the research are outlined. In the second chapter literature relevant to the study is reviewed. This chapter indicates the methodology used to achieve the study objectives. The chapter outlines the selection of the study sample, the type of data collected, why certain data were collected, how the data were collected, the hypotheses and the form of analysis of the data.

Sample

There are two major considerations in selection of the sample. The first is whether to look at formulation of legislation or the formulation of another type of government action. The second is the selection of the specific pieces of legislation to study.

This study looks at formulation of legislation. This is distinct from examining the influence which government could have through a regulatory body; as a commercial customer, supplier or competitor of an industry; or as an influencer of business through activity such as planning or moral suasion (i.e., "jawboning"). Possibly future studies can examine decisions of administrative boards, or government commercial activity. It is also felt that

legislation is the most basic of governmental activity because it establishes the base for these other activities.

Selection of Specific Cases

The specific processes of government policy formulation selected for case study were the Manitoba automobile insurance policy, the Manitoba drug substitution policy and the Manitoba mining policy.

Major considerations in the selection of the cases were the jurisdiction where the legislation was formulated, and the specific pieces of legislation.

Manitoba is the area, or jurisdiction, the cases were selected from. A major reason is that in Manitoba, with its NDP government, there is a greater attitude of acceptance of government intervention in business than in most other places in North America. In this regard, it is felt that Manitoba is indicative of other jurisdictions in five to ten years.

In a smaller province like Manitoba there are fewer people involved in the process of formulating government policy than in larger provinces, or in the federal government. This became apparent after preliminary work on the Competition Act revision and the textile policy of the federal government. Accessibility and convenience in establishing contact with government participants in Manitoba are other considerations, as was the cost of undertaking the research.

Three case studies were chosen for examination because it was felt this was the maximum number that could be included, and still be studied in sufficient detail, given the resources available for the project.

A sample of legislation dealing with the same topic in different jurisdictions was considered but rejected because of the increased cost and problems of data collection. The cases selected provided an opportunity to examine actions by a variety of types of industries. The participants were from three types of industries. There was a service industry (automobile insurance), a secondary manufacturing industry (drug), and a primary resource industry (mining).

The cases also examined three different types of legislative outcomes. In the automobile insurance case there was a complete government take over. In the drug policy case there was establishment of a governmental board (The Drug Standards and Therapeutics Committee). In the mining policy case there was taxation and formulation of regulations to control ore concentration. The three issues are also among the most significant and controversial actions taken by the Manitoba NDP government since they came to power in 1969.

To examine whether the nature of participation by business managers was dependent upon characteristics of their industries some of these were taken into account. The level of technology of the three industries is different. Automobile insurance is viewed as a low technology industry while drug and mining are viewed as higher technology industries. Criteria for this decision include the education levels and specialization of people in the industry and capital requirements for specialized equipment. In terms of all of these criteria the mining and drug industries rank ahead of the insurance industry. For example, managers of drug companies typically have a pharmaceutical background and managers of mining companies

typically have an engineering background. The drug and mining industry companies discussed are larger than the insurance companies. There is less research activity in the automobile insurance industry than in the other two. There is more capital invested in specialized equipment in the mining and drug industries than in the insurance industry. Interviews with managers in the various industries indicated their agreement with the ranking of drug and mining industries as higher technology than the automobile insurance industry.

It was also felt that the chronological order of the three processes (i.e., 1970, 1972 and 1974) would provide an opportunity for consideration of whether the nature of business participation changed over time and whether the participants in the later processes learned from previous experiences.

Data Collection

The study objectives of, firstly, describing business participation in the process of government policy formulation and, secondly, assessing and commenting upon the policy formulation process and business participation in it, necessitated collection of certain data. It was necessary to collect data which could be evaluated with respect to normative models from the literature. At the same time it was necessary to avoid forcing data into a form that would give the outcomes suggested by the models. Consequently, data were collected and presented in a chronological fashion with an attempt to report events as they took place.

The major topics incorporated in the chronological presentation

of case data were the process of /government policy formulation, actions by business managers and the process by which business managers prepared for action (Exhibit 3.1). In addition to these three primary areas, background data on the Manitoba situation were collected, and some data on inputs into the process by which business managers decided upon the types of action(s) were incorporated in the case material (Exhibit 3.1).

Data Collection Method

The general approach to data collection began, after selection of the case subjects with reading newspapers, Hansard and other background information to gain understanding of the issue, outline the general chronology and identify the major participants. Following this initial familiarization stage it was useful to talk to people who were familiar with the issue, but not directly involved. These initial stages made it possible to accumulate a good deal of background information on the processes and identify and understand the key people involved. At this point key participants were telephoned or written for appointments and interviews were conducted with them.

After interviews with key participants and those not directly involved the interviewees were, as a rule, sent a typed copy of the interview notes for their comments and corrections. When interviewees did not receive interview notes they got a copy of a case draft. This procedure, while time consuming was useful for a number of reasons. In the first place, interviewees were often more co-operative when they knew they would have a chance to examine how what they said was interpreted. The procedure allowed correction of errors of

Exhibit 3.1

Scope and Nature of Data Collected
and Included in Cases

The Process of Governmental Policy Formulation	Business Actions	Process of Preparation for Action by Busi- ness Managers	Inputs to the Process of Preparation for Action by Business Managers
<ul style="list-style-type: none"> -history -economic characteristics -demographics -legislative system -the NDP -opposition parties -civil service -events -outcomes of stages -people involved -setting -pressures and tensions -different positions -bargaining behaviour 	<ul style="list-style-type: none"> -point of action -effective or ineffective -logical argument -organizational participation -power concept 	<ul style="list-style-type: none"> -planned or unplanned -anticipated problems -had objectives -power maintenance a criterion -evaluated alternative actions -formulated an explicit strategy -actions similarity to past action -routines established for formulating action -bargaining behaviour among people involved 	<ul style="list-style-type: none"> -characteristics of managers -background -current work environment -position -ideological framework -knowledge of the governmental process -current information about the government process

interpretation. In addition, it provided a base for obtaining more information because interviewees would often expand upon certain points or volunteer additional information after reading the interview notes. This was particularly so when questions about certain points were inserted in the typed interview notes.

After sufficient interview material had been collected information gained from them was incorporated with other information in a case write-up. The draft cases were then sent to interviewees for their comments and corrections. Interviewees were told the interview and case data were for use in the thesis and were asked to comment on it. No formal written clearance was requested for its use.

Interviews

Because the interviews conducted were such an important source of information in this study, some additional comment was appropriate.

Interviews were used in addition to material from newspapers to get information on why business actions were taken and on characteristics of participants. They also indicated governmental reaction to business actions. In addition they gave a feeling for the participants and the process that could not be gained from printed material alone.

Interviews were open ended. Notes, made prior to each interview concerning what subjects to cover, served as the interview guide.

During interviews the researcher made short notes and as soon after as possible these were used to compile comprehensive notes.

These were the notes which were then sent to the interviewee.

Analysis of Case Data

Description of Business Participation

The first objective of this research was to describe business participation in the process of government policy formulation. This involved describing the process of government policy formulation, describing how business managers participated in the process and indicating the outcome of the process including changes brought about by it.

This objective was satisfied by compilation of the case studies on automobile insurance, drug substitution and mining policy. These case studies stand as a research contribution in their own right. Every effort was made to ensure that the chronologies of events in the various cases were reported as fully and fairly as possible.

Assessment and Comment Upon Business Participation

Before going into details of the assessment and comment, or analysis of case data, some observations relevant to that overall task are appropriate. A major point is that analysis of the data was not quantitative. It involved comparison and/or evaluation of the case data with the theoretical models outlined, or with questions raised by the theoretical models. Some hypotheses were formulated in response to questions raised by the theoretical material. The test of whether the models from the literature were supported by the data was not statistical significance but rather the usefulness of the models for description and/or the insight they provided into what was done

and why it was done.

The general analytic approach taken with each of the points or sub-objectives listed under the objective of assessing and commenting on business managers' participation in the process of government policy formulation is outlined below.

- (a) Determining system changes resulting from the process of government policy formulation.

Analysis involved comparison of the government, business and public sectors of the business-environment system before and after the process of government policy formulation to determine what changes had taken place with each of these elements of the system.

- (b) Determining whether business managers' participation was successful in bringing about the desired changes or preventing undesired ones.

Determination of whether business actions were successful in either bringing about desired changes or preventing undesired ones was done by comparing the company-environment systems from the beginning and end of the processes. The occurrence of changes viewed as undesirable by business managers and/or the inability to bring about desirable changes were regarded as unsuccessful business participation. Business managers' actions which brought perceived desired changes or, prevented undesired ones were viewed as successful participation.

- (c) Determining whether business participation is equally successful, or unsuccessful in all three cases.

A determination of whether business participation was equally successful, or unsuccessful in the various cases was made by comparing actual system changes in the three cases. If system changes were small participation by business managers was called more successful,

or less unsuccessful, than if difference was great. These situations were then compared for the three cases to determine whether business participation was equally successful or unsuccessful.

Where variations existed from case to case, explanations were sought. This was incorporated in the section on differences in action by different business groups.

- (d) Comparing a model of the process of government policy formulation from the literature with what actually happened.

The chronology of events as they actually happened was compared to the model of the process of government policy formulation from the theory chapter to see if it provided a good descriptive model of the process. This was accomplished by interpreting the case data in terms of the model of stages of the process of government policy formulation to see whether the data supported the model. In other words, did the model fit the data and provide a useful way of categorizing and understanding them?

- (e) Comparing models of business participation from the literature with how business managers actually participated.

Consideration of actual participation by business managers in comparison to theoretical models centered around these areas. First was the points in the process of government policy formulation where business managers took action. Second was the persuasiveness of business actions. Third was the manner in which business managers decided what actions to take.

In each of these three cases an hypothesis was developed from the theoretical material and the relevant data were examined to determine whether they concurred with the theoretically based

hypothesis.

The hypothesis regarding stage of action addressed the research sub-question of:

At what point(s) of the government policy formulation process were actions taken by business managers?

The hypothesis, or tentative expectation was:

Action by business managers will tend to be concentrated at the later stages of the process of government policy formulation.

This hypothesis was suggested by Lang's material¹ which indicated that representatives of the Pharmaceutical Manufacturers Association of Canada, in his study, had concentrated their efforts at the legislative stage of the process. As was seen from the model of the stages of the process of government policy formulation, the legislative stage is one of the later stages.

This hypothesis, or expectation, was checked by documenting and examining the actions of business representatives to determine where in the process they did take place.

The hypothesis regarding the persuasiveness of business actions addressed the research sub-question of:

Were the actions taken by business managers presented in a persuasive fashion?

The hypothesis, or tentative expectation was:

Business managers would not tend to present their arguments in the process of government policy formation in a persuasive fashion.

This expectation was based upon the assertion by Thain that while government actions worry Canadian businessmen, "Very few, however, seem to grasp beyond fairly narrow problems in their own industries what is really happening, why, and what they can or should

do about it. Understandably the vast majority do nothing. A few lash out-making speeches, writing letters to editors, starting groups to "fight," and otherwise getting themselves "involved" -- in efforts that may give them a sense of participation and momentary relief, but in the long run, accomplish next to nothing."²

This hypothesis, was examined or tested by selecting examples of business actions from the various cases and seeing whether they met the criteria established for persuasive action. The conclusion was based upon whether the tendency was for action to be presented in a persuasive or non-persuasive fashion.

The expectation, or hypothesis, concerning the formulation of business actions addressed the research sub-question of:

Were business actions in the process of government policy formulation decided upon in a planned or unplanned fashion?

The expectation was that:

Business actions in the process of government policy formulation were decided upon in an unplanned fashion.

This hypothesis was based upon initial observation that business actions often appeared to be in reaction to government action and not part of a well thought out, overall plan. The hypothesis was tested by selecting examples of business preparation for action from each of the cases and determining whether they satisfied the criteria for planned or unplanned action.

(f) Determining whether business participation differs, if at all, from one business group to another.

The hypotheses from the previous section on the point(s) of participation in the process of government policy formulation, the persuasiveness of business action and the process of preparation for

business action were generalized to all instances. The literature indicated the likelihood of different forms of business action under different conditions.

One difference expected between different business groups was with respect to the point of action by business managers. It was felt that:

Technologically advanced business groups would tend to have more interaction with the bureaucracy at stages such as determination of the nature of legislation, drafting of legislation and formulation of regulations, than would a less technologically advanced group.

This expectation was based upon the apparent influence of the civil service on the outcome of the legislation as indicated by Finer, Lang, Dawson and Galbraith in the previous chapter; upon Thain's statement that formal and informal organizational structures would arise in the event of complex problems; and upon Galbraith's interpretation of the different relations that mature and entrepreneurial corporations have with the state.

Other factors such as the experience of a business manager in dealing with government were examined to determine whether they had an effect on the point(s) at which actions were taken.

The persuasiveness of business actions was also examined to see if it varied with the experience of business managers.

It was suspected that another important factor influencing the persuasiveness of business actions would be the nature of the government decision process. That is to say, if the government process was rational (according to the definition used here) then persuasive action could take the form of a straightforward logical presentation of fact, i.e., a rational, intellectual argument. Where

it was best to view the government policy formulation process as an organizational process, persuasive business action would require that business managers be part of the ongoing process. Where government output was best understood as the result of a political process, persuasive action would involve the application of power resources in a bargaining process. In each of these cases the influencers approach would be to convince the other person (influencee) that what he (the influencer) wanted was in the influencee's best interest. In the first instance this could be accomplished by an intellectual argument, in the second instance by being a member of the process, and in the third case by exercise of power. The first two cases were implied in the third one. Intellectual argument and position in a process are sources of power but do not necessarily guaranteed possession of power in all cases.

(g) Considering reasons why business managers participated as they did.

This involved examining the background and previous experience of business managers, to the extent it could be determined, to determine whether it had an impact on the actions taken. In particular the relationship between the backgrounds of business managers and their relative success in participation in the government process was examined.

Summary

This chapter indicated the sample of processes of government policy formulation used in the research. It also indicated the geographical, cost, interest, variety, types of industries and issues and other reasons involved in the selection of the sample.

The sources of data for the research were indicated as was the method of collecting the primary interview data.

The comparative method of assessing and commenting upon business participation in the process of government policy formulation was outlined to indicate how case data were to be analyzed.

The following chapter outlines the Manitoba background, following that are the three cases, each accompanied by a short interpretation chapter. The comparative analysis chapter is next with its assessment of and comment upon the participation by business managers in the three cases. This is followed by a chapter summarizing the conclusions of the research. The final chapter presents recommendations for improvements in the participation in the process of governmental policy formulation by business managers.

¹R.W. Lang, "The Politics of Drugs: A Case Study of the Pharmaceutical Manufacturers Association of Canada," Unpublished Masters Thesis, University of Waterloo, Waterloo, Ontario.

²D.H. Thain, "The Key Issues in Federal Government-Business Relationships," The Business Quarterly, Winter 1970, p. 27.

Chapter 4

MANITOBA BACKGROUND

Introduction

The purpose of this chapter is to provide background material on the environmental system in Manitoba. The chapter contains material on the political, economic, social and technological systems in Manitoba with emphasis upon the characteristics of the political system. The agriculturally and natural resource based economy, and the ethnically varied population are discussed first, followed by commentary on the political sector.

The material in this chapter is necessary for greater understanding of the issues involved in the cases, for conducting interviews with participants in the process of government policy formulation and for analyzing the case data.

Economic Environment

Manitoba's economy is based primarily on agriculture and other natural resources. Estimated gross provincial product was \$5,177 million in 1973. This was up 15.4 percent from \$4,486 million in 1972 and up from \$1,934 million in 1960.¹ Estimated economic activity in selected sectors for 1973 was \$1,700 million in the primary resource segment, \$826 million in the construction segment, \$1,809 million in manufacturing and \$1,676 in retail trade (Exhibit 4.1). These all represented increases from 1972 with the largest increase accounted for

Exhibit 4.1

Manitoba Industrial Activity in Selected Sectors
(millions of dollars)

Year	Primary Resources	Construction	Manufacturing	Retail Trade
1960	438	396	711	-
1965	682	415	913	-
1970	820	695	1,258	1,227
1971	908	671	1,310	1,318
1972	1,024	745	1,465	1,470
1973	1,700*	826*	1,809	1,676

*Estimated

Source:

Budget Address, Debates and Proceedings, Legislative Assembly of Manitoba, Vol. XXI, No. 62, 8:00 P.M., March 21, 1974 (p. 1,674).

Exhibit 4.2

Value of Manitoba's Primary Resource Production
(thousands of dollars)

	1968	1969	1970	1971	1972	1973*
Agriculture	458,000	474,000	457,000	545,000	672,000	1,250,000
Minerals	209,617	245,596	332,146	329,913	311,154	404,914
Forest Products	19,500	25,300	22,200	26,000	31,000	34,000
Furs	5,262	5,911	4,821	3,164	2,647	3,650
Fisheries	3,497	8,286	3,360	3,829	7,415	7,415
Total	697,876	759,093	819,527	907,906	1,024,216	1,699,979

*Estimated

Source:

Budget Address, Debates and Proceedings, Legislative Assembly of Manitoba, Vol. XXI, No. 62, 8:00 P.M., March 21, 1974 (p. 1,675).

by primary resources because of the increase in agricultural production (Exhibit 4.2).

The orientation of the economy toward agriculture and other natural resource production becomes more evident with the realization that much manufacturing activity is related to either processing agricultural or other natural products or to producing inputs for natural resource industries. For example, \$500 million of manufacturing activity in 1972 was accounted for by the food and beverage industry.²

In terms of employment, however, the natural resource industries did not account for as large a share of the total as of provincial output (Exhibit 4.3).

The distribution of people employed in the primary, secondary, and tertiary sectors (the sectors which the mining, drug and automobile insurance industries respectively are included in) was indicated to be approximately fifty percent in the tertiary segment, thirty-three percent in the secondary segment and seventeen percent in the primary segment. As indicated, however, many of the people in the secondary and tertiary sectors are dependent upon the primary sector.

Social Environment

The population of Manitoba was 993,000 in 1972. Of these people 553,500 lived in Winnipeg, 32,463 lived in Brandon, 9,964 lived in Flin Flon, 13,258 lived in Portage la Prairie and 20,623 lived in Thompson.

Manitoba has a population of mixed ethnic background. According to the 1971 census the major ethnic groups were as follows:

Exhibit 4.3,

Estimates of Employees by Industry, Manitoba1961-1970(thousands)

Sector and Industry	1961	1970
PRIMARY	64.9	57.7
1. Agriculture	59.3	48.9
2. Forestry	1.0	.8
3. Mines, Quarries and Oil Wells	4.6	8.0
SECONDARY	97.8	111.4
4. Manufacturing	40.0	49.5
(a) Non-durables	25.1	28.2
(b) Durables	14.9	21.4
5. Construction	12.9	16.3
(a) Building		5.3
(b) Special Trade Contractors		8.0
(c) Highways, Bridges and Streets and Other		3.0
6. Transportation, Communication and Other Utilities	44.9	45.6
(a) Transportation		30.1
(b) Communication and Other Utilities		15.4
TERTIARY	120.9	178.4
7. Trade	41.7	57.2
(a) Wholesale		19.4
(b) Retail		37.8
8. Finance, Insurance and Real Estate	10.0	13.5
9. Community, Business and Personal Services	52.8	87.1
(a) Non-Commercial Sector	32.8	53.2
(b) Commercial Sector	20.0	33.9
10. Public Administration and Defense	16.4	20.6
	283.6	347.5

Source:

Guidelines for the Seventies, Volume 1, Introduction and Economic Analysis, The Province of Manitoba, March 1973 (p. 31).

English	- 662,720
French	- 60,530
German	- 82,720
Indian and Eskimo	- 31,665
Italian	- 7,265
Netherlands	- 10,385
Polish	- 15,900
Ukranian	- 72,925
Others	- 44,130

Many members of the various ethnic groups settled in Manitoba in the 1880 to 1910 period. Many of the English settlers were originally from rural Ontario. Peterson has stated that, "The non-British immigrants and the native people for decades remained relatively poor outsiders."³ Over two or three generations many of the various ethnic groups were assimilated into the social mainstream and culture of the province. Peterson further indicated that, "the 'national' representatives of the non-British groups slowly won respectability and legitimacy for their cultures. The need for defenses against discrimination and deportation declined. Concern over the cultural and ethnic divisions in the province increasingly gave way to concern over the continuing disparities in income, living standards and opportunities."⁴

A prevailing element in Manitoba has been a feeling of distrust of eastern Canada because of a belief that western Canadian resources are exploited for the benefit of eastern Canada. This was referred to by Morton as a "tradition of grievance."⁵

Political Environment

The Legislative Structure

Manitoba is a province within the Canadian federation with

a Parliamentary form of government.

The Ministry or Executive Council (also called the cabinet), is responsible to the Legislature. There were twenty-one different ministries, and fifteen ministers, in the Manitoba cabinet in February 1974:

The ministries were:

1. The Ministry responsible for Administration of the Manitoba Hydro Act
2. Dominion Provincial Relations
3. Urban Affairs
4. Highways
5. Finance
6. Tourism, Recreation and Cultural Affairs
7. Public Works
8. Industry and Commerce
9. Mines, Resources and Environmental Management
10. Education
11. Colleges and Universities Affairs
12. Northern Affairs
13. Labour
14. Attorney General
15. Municipal Affairs
16. Health and Social Development
17. Consumer, Corporate and Internal Services
18. Ministry responsible for Manitoba Telephone System
19. Ministry responsible for Manitoba Public Insurance Corporation
20. Agriculture
21. Ministry of Co-operative Development

The automobile insurance legislation was handled by the Minister of Municipal Affairs, Howard Pawley. The Ministry responsible for the Public Insurance Corporation was not established until more than two years after the program began operation. The drug substitution legislation was handled by the Ministry of Health and Social Development under Rene Poupin. Mining legislation was through the Ministry of Mines, Resources and Environmental Management under Sidney Green Q.C., and the mining royalty change was handled by the Ministry of Finance under Saul Cherniack.

The Civil Service

The cabinet of the Manitoba government is served by two cabinet committees -- the management committee and the planning secretariat. The purpose of these two committees is to provide overall co-ordination between the various ministries on policies and programmes that overlap departments. The planning secretariat, as the name implies, is responsible for planning or formulation of new policies. The management committee has responsibility for co-ordinating the implementation of new policies. Each of these committees has a staff of civil servants.

There are civil servants attached to each of the Ministries of the government. Their responsibilities are primarily to administer the provisions of the legislation in their respective departments.

People are appointed to positions in the civil service after competition for the position. This does not, however, preclude the possibility of a minister having influence upon the appointment of key personnel in his department, nor does it preclude the possibility of drafting personnel from other Ministries, or out of the government, for specialized work on a short term basis.

Major Groups Involved in the Manitoba Political Process

The political process is participated in by a number of different groups. It has been indicated by Thain, his "experience indicates that the process is dominated by four groups."⁸ These are:

1. Elected Politicians

The elected members of parliament who with their personal advisors and staff retain tenure only as long as they have the backing of a voting constituency or political power base.

2. Civil Servants

The permanent employees of the government, who have the continuing responsibility to implement legislation and carry on the day-to-day operation of government.

3. Professional Managers

The executives who have the authority and responsibility to formulate and implement the policies and strategy of corporations and who are answerable to the owners for results.

4. Technocrats

Professional planners, advisors, or consultants, ... economists, scientists, engineers, lawyers, academics, etc. ... who are called upon for research, analysis and recommendations in regard to major "technical" problems of government.⁹

All four of these categories of people were involved, directly or indirectly, in each of the three cases studied.

Political Characteristics

In this section the characteristics of various political groups and key political figures are outlined. A discussion of other elected politicians, professional managers, civil servants and technocrats relevant to specific cases is included at the beginning of each of the cases.

A wide range of political opinion is evident in Manitoba. This wide range of political opinion supplies the constituencies, or power base for parties with very different philosophies. Differences in political philosophies are best illustrated by comparing the New Democratic Party approach which advocates more central planning, direction and control of the economy, with the Progressive Conservative Party (the official opposition party), which advocated less centralization and greater individual freedom and responsibility as

the basis for societal decision. In practise the distinction is more blurred but the underlying difference in thrust centers around the question of centralized versus decentralized economic decision making. The essential difference between the two, centers around whether economic decisions are made centrally and the businessman merely implements the government decision or whether the businessman, in fact, has the autonomy to both make and implement decisions. Manitoba, perhaps more than any other place in North America, with the exception of Saskatchewan, has had a tradition of particularly strong representation from forces advocating more centralization of the economy. The conflict between greater centralized control and reliance upon decentralized decision characterizes all three of the cases studied.

Some of the indicators of the support for greater central control and direction of the economy include the Winnipeg Strike of 1919, the continued election to Winnipeg city council of a Communist member, the tendency toward collectivism in agricultural marketing and voting patterns in Manitoba.

The Winnipeg General Strike from May 15 to June 25, 1919 resulted in rioting and ended in confrontation between police and strikers. Two strikers were killed and a number of others injured. It was brought about by a number of factors, including unemployment of returning veterans, low wages and inflation. Another factor was the One Big Union (O.B.U.) movement, "an attempt to organize labour industrially in one comprehensive union and to convert it to the doctrines of class war and Marxian socialism."¹⁰ It was also pointed out that, "it is of the greatest importance to note that more

influential than the Marxian apostles of the O.B.U. were the militant Methodist ministers, ... (who) ... were prophesying a new age and a new order, in which labour would come into its own and social justice prevail... It was a message more appealing to the great majority of workers than the class war frenzy of the Marxists."¹¹

The Winnipeg Strike certainly emphasized the existence of a socialist faction in Manitoba. Morton states, "But by the strike Labour none the less established itself in the community; it was not again to be neglected or ignored by employer or public. Under the leadership of the men who suffered arrest and imprisonment (as a result of their leadership role in the strike) a new Independent Labour Party was organized in 1920 which was to achieve public respect and unquestioned standing in the city, although the I.L.P. was not able then or later to represent all elements of labour. The European Social Democratic movement was to give rise to a local Communist party, which was to represent a hard core of unassimilated aliens and unrelieved social discontent."¹²

In 1933 a provincial Co-operative Commonwealth Federation (C.C.F.) party, based upon bringing farmers and labourers together under a basically socialist program, was formed in Manitoba. It absorbed the Independent Labour Party but failed to attract the United Farmers party.

The Communist party's success in electing members to Winnipeg city council also illustrates the existence of a base of support for advocates of a system based on central planning.

The farm community provides an example of collectivism replacing the free market mechanism with the Manitoba Co-operative

Wheat Producers (The Wheat Pool) in 1924. This institution replaced the free market method whereby a farmer received the going price for his grain on the day he sold it, with a plan whereby a farmer pooled his grain with that of other farmers and received the average price over the year. This device made farmers less susceptible to market fluctuations in the price of grain. Many farmers continued to believe, however, that the free market method was more in their interest than a wheat pool.

The Canadian Wheat Board extended the concept of the wheat pools, and incorporated it as a government function.

The situation regarding professional sports teams in Manitoba was another indication of a public preference for community ownership and direction of certain activities rather than private ownership. The Winnipeg Blue Bombers football team and the Winnipeg Jets hockey team, which was previously privately owned, are both community owned. One problem was to get fan support for the hockey team when it was privately owned.

In contrast to the support for socialism there was and is a strongly based group in support of less government control in Manitoba. The previously mentioned farmers who declined support for wheat pools in favour of the traditional market mechanism were one example.

The media has always been basically supportive of less government control. There is no major public media outlet supportive of a predominantly socialistic viewpoint. Editorially, the Winnipeg Free Press has traditionally supported the Liberal party viewpoint, and the Winnipeg Tribune, the other major daily, has traditionally supported the Progressive Conservative viewpoint.

Voting patterns in Manitoba provincial elections indicate the geographical extent of the support for socialism versus the free enterprise orientation in provincial elections. The New Democratic Party is associated with socialism while the Progressive Conservatives and Liberals are typically associated with a free enterprise orientation. In reality, of course, both types of parties policies fall between these two extremes, however, the terms are useful in characterizing the general thrust and direction of their respective policies.

The 1969 election when the NDP party came to power in Manitoba provided a good indication of the relative constituencies of the NDP party on the one hand the Progressive Conservatives and Liberals on the other hand. The NDP won seats in the working class, and lower income areas, and in regions of discontent. The old line parties' strength lay primarily in the more established and prosperous areas. Peterson says:

Just as Winnipeg polarized in 1958 so the whole province did in 1969: the poorer ridings in the north and east, whether predominantly Ukrainian, German, Icelandic, French or Indian and Metis, voted for reform (the NDP), while the older, mainly British ridings in the southwest voted for the status quo (Progressive Conservatives and Liberals). The NDP (rural) representation in the Legislature rose from twelve to twenty-eight seats and its share of the popular vote increased from twenty-three to thirty-eight percent. Of the twenty-seven seats in Metro Winnipeg, the party won seventeen, mainly in the poorer north and central districts. Where it penetrated southward as in Crescentwood, won by University of Manitoba Professor Cyril Gonick, the division in poll results similarly reflected the division in the riding between a relatively wealthy neighborhood and one containing more modest homes and lower income households. Of the two ridings in the city of Brandon, likewise, the poorer one in the east was won by the NDP, while the relatively more prosperous one in the west was retained by the Conservative party. The NDP also won both of the northern mining towns, Flin Flon and Thompson, where better than average incomes were undermined by exceptional living costs and where union spokesmen repeatedly expressed local

dissatisfaction with high rents and food prices. In the ridings of The Pas and Rupertsland, similar dissatisfaction in Indian and Metis communities assisted the NDP victory. In the fourteen northern and eastern ridings, generally, the NDP secured an average popular vote of forty-three percent; while the same number of more prosperous ridings in the southwest, it secured only nineteen percent of the popular vote. Reversing this pattern of support, the conservatives obtained thirty-two percent of the vote in the north and east, but retained forty-seven percent in the southwest.¹³

The pattern of voting by income class was reinforced in the 1973 Manitoba provincial election.

Some of the reasons for the electoral success of the NDP party were the maturing of the ethnic population of Manitoba which tied in with initial settlement patterns; the leader of the NDP, Mr. Schreyer, contrasted to Walter Weir; the electoral system in Manitoba; increased demands of the electorate for social programs; and the decline of the Liberal party in Manitoba.

Initial settlement patterns in Manitoba, as mentioned, resulted in settlers of British-Ontario backgrounds obtaining a large proportion of the good land while non-British immigrants were allocated much of the more marginal land. This allowed people of British origin to obtain a disproportionate share of the economic wealth of the province. This economic fact, and some of the social pressures that non-British, "alien" settlers were subjected to kept them from forcefully exerting political preferences. In the 1960's the second and third generation of non-British immigrants altered their voting pattern from supporting the party in power (often the one responsible for bringing them to this country and keeping them here). This pattern was replaced by a tendency to vote on an income class basis. In this event lower income people tended to support the NDP while higher income people supported

the Progressive Conservatives and Liberals.

Peterson says:

Had Manitoba been settled exclusively by British immigrants, it seems probable that party politics could earlier have reflected class divisions. Perhaps a left-wing party could have been more successful. But the non-British immigrants and the native peoples for decades remained relatively poor outsiders. When British working-class immigrants tried to redress their grievances, as in 1919, they had to do it alone without broad support, were disarmed by the racist charges of their opponents, and finally suppressed by force. In the Depression, while lower class protest was fragmented among the CCF, Social Credit, Communists and Independent Independents, the government maintained itself with the beguiling doctrine of coalition that effaced election issues and with an electoral system that held down the representation of both Winnipeg and poorer northern areas. International developments -- the two World Wars, the Russian Revolution, Stalinism and Cold War -- only compromised and distracted left-wing reformers but generally, recurrently smeared and intimidated German and Slavic immigrants. Religious divisions, conservatism and fear of intolerance also discouraged political activity, notably among Mennonites and French Catholics. Perhaps most important, basic economic need demanded a nearly total effort: a measure of political action. But by long and prudent service to the ruling compact, the "national" representatives of the non-British groups slowly won respectability and legitimacy for their cultures. The need for defences against discrimination and deportation declined. Concern over the cultural and ethnic divisions in the province increasingly gave way to concern over the continuing disparities in income, living standards and opportunities. Having survived the vicissitudes of this process, Manitobans in their second century appeared ready for a more straightforward competition between those disposed towards reform and equalization and those who expressed the need for restraint and stability.¹⁴

There was an apparent demand by the voters of Manitoba for more attention to social problems and a more progressive approach to government. From 1922 to 1957 the government of Manitoba was primarily a coalition of different groups with heavy rural and upper class city influence. The prevailing approach was to keep expenditures to a minimum and concentrate upon administration of existing programs rather than upon formulation and implementation of new programs.

When the Roblin government was elected in 1957 it undertook a

number of more innovative and progressive social and economic measures than had been the case under the previous government. Examples of programs included increasing expenditures on education, health and welfare (\$27.5 million in 1956 to \$136.7 million in 1966), consolidation of rural schools, establishment of the Metropolitan Corporation of Winnipeg, establishment of the Manitoba Development Fund, establishment of a Housing and Urban Renewal Corporation, and construction of highways and the Winnipeg floodway.

When Walter Weir succeeded Roblin in 1957 the government became more conservative. Weir announced that Manitoba would not enter the federal medicare program, a reversal of the Roblin government's announced intention. Public pressure, however, forced Mr. Weir to reverse his decision again. In a sense, the Weir government was a throwback to the type of government prevalent prior to Mr. Roblin's times. Mr. Weir practised conservatism, and concentrated upon administration of existing policy rather than formulating new policies. The electorate was not prepared to accept a return to this style of government and, in a sense, demanded greater government involvement and initiative by voting Mr. Weir out of power.

A further reason contributing to the ascent to power of the NDP government was the party leader, Edward Schreyer. Mr. Schreyer, who refers to himself as a Social Democrat, had a great deal of personal appeal and was regarded as a primary factor in the 1969 NDP election. He cooled the fears of many that the NDP would adopt a doctrinaire socialist approach to policy.

He was born in Beausejour in December 1935 and was educated in Manitoba, acquiring four University degrees by the age of twenty-two.

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MICROCOPY RESOLUTION TEST CHART
NATIONAL BUREAU OF STANDARDS-1963-A

co-ordinate their activities. As a rule, G.R. Tatlock and R.A.S. Cooper were the I.A.A.M. representatives at these meetings.

The Insurance Bureau of Canada

The Insurance Bureau of Canada's (I.B.C.'s) original membership base consisted of general insurance companies who were members of three other organizations, the Canadian Underwriters Association, and the Independent Insurance Conference, and the Independent Independents. The I.B.C., originated in 1964, was "formed at the urging of the Federal Superintendent of Insurance after warnings that government action might prove necessary unless the industry found a way to avoid the huge underwriting losses which could threaten the solvency of some individual companies."⁵ The first chairman, W.F. Spry indicated that, "It is our intention to bring about, on a voluntary basis, a more orderly marketplace in the interests of policy holders and a reasonable underwriting profit."⁶

In 1968, I.B.C. and the All Canada Insurance Federation, an industry organization dealing principally with legal and public relations problems, merged and gave the industry a single, co-ordinated voice. I.B.C.'s activities were transacted through four working divisions, statistics, legal, public relations and research. The I.B.C. statistics division was designated by the Superintendent of Insurance in each province, to collect data on the automobile insurance experience of all companies. Companies then use this raw material in establishing subsequent automobile insurance rates.

In 1969 the member companies of I.B.C. had premium income of \$1.396 billion in Canada. This was ninety percent of the total

said the "prime objective (of any politician) should be winning elections even if it meant bending their principles a little." He went on to say, "the politician who doesn't concern himself with the means of gaining power is not really a politician ... He may be a theoretician, a thinker, a moralist or a saint - but he isn't a politician." Then he said, "Time, place and circumstances will dictate the kind of language we must employ. Time, place and circumstances will dictate those aspects of our program which we emphasize and seek to implement."¹⁶

Premier Schreyer, while an even tempered man is bothered by bigotry whether by NDP party members with respect to the business community or vice versa. He is concerned with human dignity.

In summary, Edward Schreyer is an extremely competent politician and directs his political skills toward improving the quality of life of people. One of the effects of his political philosophy is to moderate socialist leanings of some members of the cabinet and caucus. Certainly, without Mr. Schreyer the NDP would have had difficulty marshalling sufficient public support to be elected.

The decline of the Liberal party in Manitoba combined with the nature of the electoral system were other factors contributing to the election of the NDP. The Liberal party did not maintain its image as a middle alternative to the NDP and the Progressive Conservatives. The Liberal party became closely identified in its platforms and programs with the Progressive Conservatives. In 1969 the NDP won the election, and formed a minority government, with thirty-eight percent of the popular vote. The Liberals and the Progressive Conservatives split the other sixty-two percent of the popular vote between

themselves.

Economic Policies of the Provincial Government

This section contains some excerpts from the report, entitled Guidelines for the Seventies, issued by the provincial government.

This report, which provided guidelines for economic development in the province, was indicative of the thinking of the New Democratic Government respecting economic practise and development. These policies were important to an understanding of the rationale behind actions of the government. The excerpts indicate government attitudes to be: that business should contribute to an overall set of social goals; a preference for small business rather than large firms; of distrust of large business firms; and a willingness to use a variety of means to encourage local business firms.

Role of Business

Throughout Guidelines for the Seventies the four basic principles are improvement of the general well-being, redistribution of society's benefits to achieve an equitable human condition, implementation of a stay option to make it economically feasible for residents to exercise choice as to their own lifestyle and location, and developments of means whereby the citizen can participate more effectively in the decisions which affect his life.

A basic ingredient in realizing these objectives is the way in which goods and services are produced.¹⁷

These comments illustrate the basic social goals of the province and the intention of the government that the business sector of the provincial economy should serve these goals.

Distrust of Large Firms and a Preference for Small Business

Until perhaps twenty or thirty years ago, the bulk of

production in Manitoba was carried out by small and medium sized firms. The ultimate beneficiaries of such a system were the consumers in that technological advances were quickly passed on to the buying public in the form of lower prices and product improvement. Producers received profit in direct relation to their innovativeness, effort, and ability to provide the kinds of products consumers desired.

This system of 'free competition' had both merits and drawbacks. But, whatever the evaluation of it, this type of economic organization is rapidly disappearing in modern industrialized societies. In industry after industry, free enterprise has been replaced by large corporations which produce most of the output and reap most of the profits. Branch plants of multi-national corporations are located in countries all around the world. They grow by internal expansion and by buying out local companies ...

In the resources field, only giant corporations can mobilize the large amounts of capital that are required to participate effectively. The same is increasingly the case for many manufacturing industries. The small scale operator is even being replaced in the distribution industry and such service industries as hotels, movie theatres and the like.

Giant corporations have enormous advantages over small scale enterprises. These corporations can borrow money more cheaply, they have access to better technology, they can pay for management support services, and they can more easily pass their taxes on to consumers in the form of higher prices. Because they have higher productivity they can also more easily absorb short term losses much more easily and this can in turn have obvious effects in market-place strategies.

Some of these advantages are the inevitable consequences of size, but many of the advantages are continued through tax laws, financial institutions, and other economic arrangements that have the net effect of favouring large firms over small.

The consequences of this major change in industrial structure are far-reaching, both for consumers and for local producers. Decisions that affect the daily lives of Manitobans are increasingly being made outside of Manitoba and outside of Canada.

The fact that in industry after industry, production is controlled by a few large firms means that consumers are becoming increasingly disadvantaged in terms of what their income can buy. Food prices are constantly increasing, and, according to the Batten Report, the monopolistic structure of the food distributing industry must bear a large share of the blame for this. Drug prices in Canada are among the highest in the world and this is not unrelated to the dominance of the large, multi-national pharmaceutical companies. According to the Klass Report, promotional efforts by the industry's leaders amount to twenty-

five percent to thirty percent of total sales. This, of course, is paid for by the consumers of pharmaceutical products. Automobile prices in Canada are still substantially above those in the U.S. in spite of a "free trade" agreement. This again is the result of the power of the automobile companies to control markets in their own interests. Prices of many farm inputs are set at levels that yield enormous profits to the "agri-business" sector. Thus, multi-national firms in the fertilizer industry are able to charge higher prices for Brandon-manufactured fertilizer in Manitoba than in nearby American states.

The high cost of goods produced in monopolized industries is something that relates not only to "luxury" items but to a wide variety of basic necessities. As a result, the monopolization of industry affects consumers from all walks of life. This is particularly true for working people who find it harder and harder to provide an adequate standard of living for themselves and their families.

This form of industrial organization operates to the detriment of not only consumers, but also local producers. Only eight percent of manufacturing establishments in Manitoba have more than 100 production-related employees. But this eight percent of the firms produce sixty percent of the value added in manufacturing. Conversely, ninety-two percent of all Manitoba manufacturing establishments have fewer than 100 production-related employees; eighty-four percent of establishments have fewer than fifty production-related workers.

These small firms are increasingly hard-pressed in a world of corporate giants. Because they operate on a scale that does not allow for the development of expertise in areas such as traffic management, exporting, financing and market research, they find their markets continually being encroached upon by the larger multi-national firms. Their lack of access to adequate financing and certain key inputs renders expansion difficult and makes it unlikely that innovative ideas will be translated into production realities. Because these firms operate in an increasingly insecure environment, they face the constant threat of being swallowed up by the corporate giants or simply going under.¹⁸

These excerpts indicate the negative attitude of the New Democratic party government to large business concerns based upon the government's concerns that large firms have an influence upon conditions inside and outside the firm that business organizations entirely dependent upon the market do not have. Furthermore, it was perceived that this influence enabled large firms to maintain an advantage over

smaller firms and consumers.

Means to Resolve Perceived Problems

The report continued:

It is necessary, therefore, for government to use resources to improve the economic situation for local consumers and local producers. This policy has a number of components:

- Encouragement of individual entrepreneurship via the continued provision of certain key inputs, such as marketing and franchising services for firms too small to organize market penetration by themselves, feasibility research and loan packaging, management training programs, productivity audit-analysis, and facilitating technological product design improvement for small firms which are unable to afford these services themselves.
- The promotion of the co-operative movement, especially for disadvantaged groups served inadequately by both the public and private sectors.
- The use of crown corporations at both the provincial and local level to greatly influence the nature and structure of product production in Manitoba.¹⁹

Types of crown corporations suggested were, (1) A public financial intermediary, (2) provincial crown corporations and (3) a local form of crown corporation. Public financial intermediaries were advocated, "to combat the insufficiency of the chartered financial institutions."²⁰ With respect to the provincial development agency it was felt that it should not function as the Canada Development Corporation with the objective of eventually selling shares to the public, and "Neither should it operate in the traditional manner of crown corporations in Canada -- namely, only as a vehicle of last resort set up in areas where private enterprise fears to tread. Instead, the development agency would operate in some of the more profitable areas of the economy as well as in the higher risk

areas.* One component of its policy would be to set up companies in fields characterized by private monopolies. In addition, Crown corporations could be set up in sectors where there are potentially high social returns, but where the kinds of inputs and scale of operations required for efficient production are beyond the reach of local concerns. To ensure that the profit and control of these enterprises rest fully with the public, the Provincial development agency would be owned by all of the people in Manitoba through the public sector, rather than by a small group of investors through private shareholders."²¹

Types of industries where it was suggested crown corporations would operate to "best advantage"²² were:

1. Industries characterized by monopoly control or oligopolies, where a few large firms dominate an industry and give the appearance of competition through artificial product differentiation, e.g., pharmaceutical, food processing and distribution, and fire and life insurance.
2. Industries characterized by "barriers to entry."
3. Small firms threatened by foreign take over.

This section demonstrates an acceptance by the Manitoba government of a broader concept of the crown corporation, and a willingness to employ it to enter into commercial operations in competition with privately owned firms with the express purpose of accumulating money or reducing costs to assist in accomplishment of public goals. The reasons advanced for entry by a crown corporation into new areas related to high prices (e.g., monopoly or oligopoly, barriers to entry) and to retaining local control of small and

*Authors emphasis.

medium sized enterprises (e.g., buying firms threatened by foreign take over).

In summary, the economic policy of the government had the effect of employing business organizations as means of achieving social objectives. Emphasis was upon preventing potential abuse of customers by large firms (branch plants of national companies) by establishment of small, locally controlled operations. Stimulation for locally controlled operations was to be by incentives to local firms, encouragement of co-operatives and creation of crown corporations.

Forces, Counterforces and Trends

As mentioned earlier, the two polar positions with respect to government control over business were on the one hand a minimum of control (i.e., a laissez faire system); and at the other extreme a centralized, completely government controlled economy. Between these two extremes there are a variety of possibilities including low, medium and high government control, utilizing a number of means such as a regulatory boards, crown corporations, taxation, legislation, and others. There are a variety of forces tending to push the Manitoba system in either one direction or the other. The net effect is that it is at a position of medium government control at the moment.

Forces in Manitoba, pushing toward a greater centralization of economic control in the government, whether by ownership, regulatory boards, planning or some other means, included a variety of political, economic, social and technological factors.

The basic trend at the current time is toward more government

control of the economy. The trend existed in other jurisdictions as well. Premier Allan Blakeney of Saskatchewan, a neighboring NDP governed province indicated at the 1975 annual meeting of the Saskatchewan Chamber of Commerce that "Government will play a more prominent role in the operation of business because society demands it." He also said that, "growing interrelationship between business and government comprise the model for the future."²⁴

As mentioned previously, it is not, and will not be, a matter of government exercising control by just assuming ownership of various industries. The tools, or means, available to the government to exercise greater control include legislation, regulatory boards (public utilities), commercial activity (as purchaser, supplier or owner of an industry), and suggestion (including things such as moral suasion, planning, threatened legislation, and other means of influencing without exerting formal authority).

Forces are pushing toward greater centralization of economic decision making by the government. A greater number of government initiatives to influence the economy by use of the tools mentioned above are apparent²⁵ and more are expected.

Summary

This chapter outlined the basic structure of the Manitoba economy as natural resource related, especially agricultural. The population was very diverse ethnically. Much of the original settlement took place in the last twenty-five years of the 1800's. Settlement patterns dictated that the first people to settle, essentially folk from Ontario of British descent got the best land.

This laid the groundwork for future political events.

The structure of the Manitoba political system was outlined and Mr. Schreyer, the premier of the province was described as a Democratic Socialist and a very competent politician. The diverse range of political opinion in the province, from those favouring more central control of the economy to those favouring a retention of less control was indicated.

Following this it was indicated that government policy favoured local control of the Manitoba economy, that the economic sector should serve to support overall societal goals in the province, that small businesses are preferable to large monopolistic or oligopolistic concerns, and that a variety of governmental means would be applied to accomplish goals.

The last section of the chapter concluded that the trend, at least in the foreseeable future, was toward greater influence by government.

Footnotes

¹ Debates and Proceedings, Legislative Assembly of Manitoba, Vol. XXI, No. 62, 8:00 P.M., Thursday, March 21, 1974. First Session, 30th Legislature, p. 1,673-1,674 (Budget Speech).

² Manitoba Facts 73, Published by the Government of Manitoba, p. 21.

³ T. Peterson, "Ethnic and Class Politics in Manitoba," in Canadian Provincial Politics, ed. M. Robin, Prentice-Hall of Canada, Ltd., Scarborough, Ontario, 1972, p. 114.

⁴ Ibid.

⁵ W.L. Morton, Manitoba, A History, 2nd. ed., University of Toronto Press, Toronto, Ontario, 1967, p. 219.

⁶ Canada Year Book, 1972, pp. 112-113.

⁷ Government of Manitoba Telephone Directory, February 1974, pp. 25-26.

⁸ D.H. Thain, "The Strategic Problems Confronting Corporate Top Managers in Canada" August 1974; mimeo; School of Business Administration, The University of Western Ontario, London, Ontario, p. 38.

⁹ Ibid. (p. 39).

¹⁰ W.L. Morton, Manitoba: A History, p. 363.

¹¹ Ibid., p. 367.

¹² Ibid., p. 373.

¹³ Peterson, "Ethnic and Class Politics", pp. 109-110.

¹⁴ Ibid. (pp. 114-115).

¹⁵ This tendency to decentralization was indicated in an interview with Sidney Spivak, Leader of the Progressive Conservative opposition. He contrasted the Schreyer executive style to that of Duff Roblin, indicating that Mr. Roblin had maintained much greater control over and co-ordination of the actions of different government ministries. Other interviews with NDP cabinet ministers indicated the large degree of freedom the ministers had to introduce new policies. In commenting in the June 27, 1973 Winnipeg Free Press, upon the impending 1973 election all four Free Press commentators, Egon Frech, Ralph Bagley, Ron Campbell and Douglas McKay, remarked upon Mr. Schreyer's personal popularity and its impact upon the electorate.

¹⁶ Winnipeg Free Press, October 29, 1969.

¹⁷ Guidelines for the Seventies, Government of Manitoba, March 1973, p. 133.

¹⁸ Ibid., pp. 133-135.

¹⁹ Ibid., p. 135.

²⁰ Ibid., p. 138.

²¹ Ibid., pp. 138-139.

²² Ibid., p. 139.

²³ Winnipeg Free Press, May 9, 1975.

²⁴ Ibid.

²⁵ For example, the Legislative Assembly in 1974 considered legislation to create a provincial system of banks (Treasury branches), introduce public fire insurance in competition with private schemes, establish a Trading Corporation as an agency to sell goods produced by Manitoba manufacturers outside the province, and increase taxation on petroleum products. Overall the trend was toward more government involvement in the economy.

Chapter 5

THE AUTOMOBILE INSURANCE ACT

Introduction

The process involved in formulation of the Automobile Insurance Act provided a unique opportunity to study business participation in the process of government policy formulation. The issue involved the Government of Manitoba and its entry into the private automobile insurance business as a government monopoly. During the process leading up to the formation of the Manitoba Public Insurance Corporation many people were involved. It was one of the most controversial and hardest fought issues in the history of Manitoba provincial politics.

This case concentrated upon the time from election of the minority NDP government in June 1969 to proclamation of the legislation in November 1971. The chapter begins with an outline of the major individuals and groups involved, and an examination of pressures for and against public automobile insurance in the years prior to 1969. This is followed by a chronology of events depicting the major decisions made and the interaction between and within the various groups in arriving at decisions.

Group and Individual Participants Involved in the Process

There were four major types of people actively involved in

the process of formulation of the legislation. These were politicians, civil servants, advisors or technocrats and representatives of the industry.

Politicians

The New Democratic Party

After their surprise election of June 25, 1969 the New Democratic Party (NDP) held twenty-eight seats compared to a total of twenty-nine by the combined opposition. However, a Liberal member, Larry Desjardins, joined the NDP caucus, giving them a working majority. The arrangement also gave Mr. Desjardins the balance of power in the Legislature.

Even without Mr. Desjardins the NDP caucus was composed of people with a broad spectrum of viewpoints. There were ardent socialists such as Cy Conick and very strong willed individuals such as Sidney Green, who had lost to Mr. Schreyer in a pre-election party leadership campaign. Another NDP member elected was Joe Borowski, a maverick conservative.

Premier Schreyer was the focal point around which the caucus coalesced. Howard Pawley, the Minister of Municipal Affairs was in charge of formulating and implementing the automobile insurance policy. A lawyer from Selkirk, a town of 10,000 people near Winnipeg, Mr. Pawley was first elected to the Manitoba Legislature in the June 1969 election. Discussion with Mr. Pawley indicated that he saw himself as neither a free enterpriser or a socialist, but as a pragmatist interested in achieving results.¹ He also indicated that a concern for people was foremost in his approach to public life and that one of

the most enjoyable aspects of his work was working for his constituents. This statement was confirmed in discussions with people who worked with Mr. Pawley.

Mr. Pawley was a hard worker who believed that all things (outputs of the political process) of importance to people were brought about by heavy debate and exchange.

The Progressive Conservative Party

The Progressive Conservatives were defeated by the NDP in the June 1969 provincial election. They retained 22 seats in the Legislature. Their leader, Walter Weir, a former Minnedosa undertaker, was not a dynamic leader, and preferred to concentrate on administration of existing policy rather than formulation of new policies. Other upper echelon members of the Conservative caucus included Sidney Spivak, former Minister of Industry and Commerce; Harry Enns, former Minister of Highways; Donald Craik, former Minister of Mines and Natural Resources; and Bud Sherman, a former Winnipeg South MP running in hopes of getting a provincial cabinet position.

The Liberal Party

The Liberals returned only five members to the Legislature in June 1969 (down from 14). They were leaderless because their newly elected leader, R.W. (Bobby) Bend had been defeated in his own constituency in the election. Gordon L. Johnston was appointed as Liberal House Leader until such time as a new leader was chosen. After Larry Desjardins' defection the Liberals were left with four members.

There was much talk of, and pressure for, a coalition of the

Liberal and Progressive Conservative parties. This union never did transpire, however.

Civil Servants and Advisors

Formulating automobile insurance legislation in Manitoba presented problems. A new government was handling it, and there was not an established civil service body familiar with the issue. As a consequence, new people had to either be hired and brought in, or transferred from other departments.

R.D. Blackburn

R.D. Blackburn was hired by the Manitoba government as an automobile insurance advisor in August 1969. He was the chief civil servant involved in formulating the details of the public automobile insurance plan and he was the first general manager of the Manitoba Public Insurance Corporation. After initially starting with a private insurance company, Mr. Blackburn went with the Saskatchewan Government Insurance Office (S.G.I.O.) in 1946 where he was involved in setting up the Saskatchewan public automobile insurance plan. He rose to the position of Assistant General Manager of the S.G.I.O. He left Saskatchewan shortly after the Liberals under Ross Thatcher won the Saskatchewan provincial election in 1964, and went to Ontario where he was head of the Ontario crop insurance program.

David Randall

Mr. Randall was the advisor to Mr. Schreyer on automobile insurance at the time of the June 1969 election campaign. He was opposed to the automobile insurance industry. He had previously

written a book entitled Dollars on the Highway which was very critical of the auto insurance industry.

Ken Goldstein

Mr. Goldstein, whose background was in advertising and communications was an Executive Assistant to Premier Schreyer. He became involved with the automobile insurance process when asked to review a copy of a report on automobile insurance prepared by the Automobile Insurance Committee before it was released to the public. He was subsequently involved in amendments to the legislation and in formulating regulations after legislation was passed.

Industry Representatives

The Insurance Industry

The automobile insurance industry was composed of a number of different types of organizations all related in some way to the function of providing automobile insurance to the public. Insurance was provided by a number of companies. The link which these companies had with the insuring public, whether individual or corporate customers, was through either independent agents, company agents or brokers. There were others, for example insurance adjusters, involved in the insurance process but the major groups opposed to public automobile insurance were insurance companies and insurance agents.

The Insurance Agents Association of Manitoba (I.A.A.M.)

The Insurance Agents Association of Manitoba (I.A.A.M.) was the major vehicle through which general insurance agents in Manitoba participated in the formulation of the Automobile Insurance Act. The

I.A.A.M. was led by its president, George R. Tatlock, who was subsequently selected as Canadian insurance agent of the year in a ballot of 22,000 Canadian insurance agents and brokers conducted by Insurance Agent and Broker in Canada, an insurance industry trade magazine.²

As of December 1969 the I.A.A.M. represented 340 individual agents who, in turn, represented an estimated 225 to 250 agencies. Members of the Association handled seventy-five percent to eighty percent of the approximately thirty million dollars in annual auto insurance premiums in Manitoba.³

Statistics from affidavits submitted to the Superintendent of Insurance indicated there were 1,167 agents in Manitoba in 1969. Of these, sixty-seven percent had gross commissions of \$5,000 or less, eighty-one percent had commissions of \$10,000 or less and ninety-one percent had commissions of \$20,000 or less. The average agent's age was fifty years, with the average rural agent's age being somewhat above this at fifty-four years. The distribution of ages indicated that only 191 of the agents (twenty percent) were under forty years of age.⁴

The stated I.A.A.M. objectives were:

- (a) To establish and maintain an Association of Insurance Agents (other than life) in the Province of Manitoba -- promoting and protecting the interest of its members in the insurance business and the public interest in like manner.
- (b) To foster, encourage and practise a high standard of ethics in the insurance business.
- (c) To co-operate, or affiliate, with other insurance organizations, with similar objectives, when desirable or necessary.
- (d) To co-operate with, and assist, the Insurance Department of the Province of Manitoba in all matters pertaining to general public

interest insofar as insurance is concerned.

A president was elected annually. George Tatlock, the president during the period in which Bill 56 was considered, was an agent with Reed, Shaw, Osler Ltd., a large Winnipeg insurance broker. A board of directors was also elected annually. There tended to be a good representation on this board from the larger insurance agencies. A part-time secretary was employed by the Association. Members paid an annual fee to support the Association's financial needs.

Some of the general insurance agents in the province did not regard the I.A.A.M. as a particularly strong body. As a consequence many had not become members or had relinquished their memberships. An interview with an independent agent in Manitoba indicated that an instance of contention occurred around 1965 when certain companies proposed to lower agent commission rates and some agents did not feel that the I.A.A.M. had been sufficiently adamant in opposing the move.

R.A.S. Cooper, a Winnipeg independent insurance agent was chairman of the Association's automobile insurance committee. Neither Mr. Tatlock or Mr. Cooper had previous experience in dealing with government on major policy matters. Mr. Cooper indicated that he and other industry representatives felt like "babes in the woods" the first time they met with political representatives.

During the period from when the Manitoba NDP government was elected in late June 1969 until Bill 56 was passed by the Legislature of Manitoba the Insurance Agents Association of Manitoba maintained a liaison with the Insurance Bureau of Canada. The liaison consisted initially of meetings held informally but regularly between the two groups. The purpose of the meetings was to enable the two groups to

co-ordinate their activities. As a rule, G.R. Tatlock and R.A.S. Cooper were the I.A.A.M. representatives at these meetings.

The Insurance Bureau of Canada

The Insurance Bureau of Canada's (I.B.C.'s) original membership base consisted of general insurance companies who were members of three other organizations, the Canadian Underwriters Association, and the Independent Insurance Conference, and the Independent Independents. The I.B.C., originated in 1964, was "formed at the urging of the Federal Superintendent of Insurance after warnings that government action might prove necessary unless the industry found a way to avoid the huge underwriting losses which could threaten the solvency of some individual companies."⁵ The first chairman, W.F. Spry indicated that, "It is our intention to bring about, on a voluntary basis, a more orderly marketplace in the interests of policy holders and a reasonable underwriting profit."⁶

In 1968, I.B.C. and the All Canada Insurance Federation, an industry organization dealing principally with legal and public relations problems, merged and gave the industry a single, co-ordinated voice. I.B.C.'s activities were transacted through four working divisions, statistics, legal, public relations and research. The I.B.C. statistics division was designated by the Superintendent of Insurance in each province, to collect data on the automobile insurance experience of all companies. Companies then use this raw material in establishing subsequent automobile insurance rates.

In 1969 the member companies of I.B.C. had premium income of \$1.396 billion in Canada. This was ninety percent of the total

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general insurance business in the country.

I.B.C., with its head office in Toronto, had an elected board of directors. Each of the three major industry groups including the Canadian Underwriters' Association, the Independent Insurance Conference and the Independent Independents nominated six directors and three alternates to the board. Each group of companies had one vote in election of directors.

There were thirteen standing committees of the board of directors. One of the standing committees, the Western Advisory Committee, was responsible for acting on behalf of the I.B.C. in Manitoba during the formulation of the Automobile Insurance Act. This was in accordance with a policy of the I.B.C. that local or regional matters should be handled by the local representatives of the association. The Manitoba based directors of I.B.C. who handled the situation were H.B. Vannan, President of Canadian Indemnity Company and G.C. Trites, the general manager of Wawanesa Mutual Insurance Company.

H.B. Vannan, an aggressive, very determined leader was the chairman of the Western Advisory Committee of I.B.C. Mr. Vannan was subsequently selected as Insurance Man of the Year by a trade publication, the Insurance Agent and Broker in Canada.⁷ Staff of the I.B.C. from Toronto were available to provide advice and assistance to the local committee. I.B.C. people who were active included: E.H.S. Piper, Q.C., legal counsel of I.B.C.; Carl Wilcken, the I.B.C. actuary; and David Chamberlain and Gene O'Keefe of Public and Industrial Relations Ltd., the public relations firm retained by I.B.C. on a continuing basis.

Individual Insurance Agents

The auto insurance agents' function was to act as an intermediary between the purchasers of auto insurance and the general insurance companies. Independent agents were owners of their own businesses which they had either built up on their own or bought from someone else.

Many agents were involved in opposing the issue of public automobile insurance. These included Sylvan Leipsic, of Aronovitch and Leipsic, Ltd. and Jim Harbun, owner of Ken Allen Agencies.

Sylvan Leipsic was the vice-president of insurance for Aronovitch and Leipsic, Ltd., a long established Winnipeg real estate and insurance firm. When the NDP government was elected, Mr. Leipsic was concerned about the future of the industry and participated actively with the Insurance Agents Association of Manitoba in an effort to prevent a take over of the industry.

Jim Harbun was a forty-seven year old veteran of sixteen years in the insurance business with Allstate Insurance Co. of Canada when he purchased the Ken Allen Insurance Agency in Winnipeg for \$70,000 on April 1, 1969. Mr. Harbun had previously been Allstate's Regional Sales Manager for Western Canada. He had looked across the country to find an agency before deciding to purchase one in Winnipeg, where he had in 1955 opened up the first Allstate office. He investigated the business and political environment prior to making his decision by talking to friends in Winnipeg in the insurance industry and a friend who worked for Investors Syndicate Ltd. The message he received and the conclusion he drew was that Manitoba was a Progressive Conservative stronghold and that there was no fear of any government take over. 8

Chronology of EventsForces Contributing to Pressure for
Public Automobile Insurance in the
Period Prior to the 1969 ElectionThe Initial Automobile Insurance
System

The system by which automobile insurance was supplied prior to 1969 was based upon insurance companies insuring vehicles through agents. The customer would purchase insurance, if he chose to insure, his car, through an agent.⁹ The agent would then place the insurance with a company. Companies established the rates they would charge for different risk categories. The basic forms of coverage carried were death and disability coverage to driver and dependents; all perils or comprehensive coverage for things such as theft, fire or collision involving the insured's car; and, third party or bodily injury and property damage coverage to protect the insured against liability claims for bodily injury or property damage sustained by others.

Death and disability claims were paid on a no-fault basis. That is, they were paid to an insured driver, or his dependents, even if he was at fault in an accident and a death or disability claim resulted. In the event of a claim on the all-perils or comprehensive, portion of a policy the insured was required to pay the deductible amount specified in his policy. A third party insurance claim resulted in the insured's insurance company paying the third party if, in fact, it was shown that the insured was at fault in causing bodily injury or property damage to a third person. Establishment of liability or fault for an accident was a procedure which sometimes required court action and could, therefore, take a long period of time.

Establishing the amount of claims resulting from accidents required the services of insurance claims adjusters. Some adjusters were independent and some worked for specific insurance companies. Automobile body shops also were involved because they did the repair work on damaged vehicles.

Criticisms of Automobile Insurance

Criticism of the original system of automobile insurance centered on two major themes -- the settling of claims and the cost of insurance for certain categories of drivers. Respecting claims settlement it was argued that because of the need to establish fault in liability claims through the tort system, long delays sometimes resulted before payment was made and the cost of settling claims was high. The cost was high because of the need, in certain cases, for both parties, or their insurance companies to employ lawyers and insurance claims adjusters in the process of establishing fault. The other major category of criticisms related to the higher premiums which younger drivers (under twenty-five) had to pay regardless of their accident experience, and to increases in premiums for drivers who were at fault in accidents.

One of the most interesting statements of the perceived problems with the initial system for providing automobile insurance was made to the Manitoba Legislature in the debate on second reading of the bill on public automobile insurance. Excerpts from this statement were as follows;¹⁰

There are quite a number of areas really, Sir that stand out as problems in the automobile insurance field in the Province of Manitoba and I'm going to enumerate the major ones ...

The first one, Mr. Speaker, of great concern is that uninsured cars are permitted on the highways of Manitoba.

Also, Mr. Speaker, too great a delay often occurs in putting funds in the hands of the victims - the people, the victims of automobile accidents, even if the vehicles are insured.

Another one, Mr. Speaker, is that there would appear to be an excessive penalty against single accident drivers with a minor claim as the merit system is being applied at the present time.

Another one, Mr. Speaker, is that there would appear to be an unfair penalty ... included in the insurance premium of a new young driver before his driving record indicates that penalties should be applied.

Another one is that the ... extremely high percentage of relatively small claims resulting from minor accidents and the high administrative costs of determining fault and settling these claims contribute very greatly, Mr. Speaker, to the cost and to the delay.

Another one, Mr. Speaker, is the high cost of parts ... in relation to the original cost of the car (used) in the repair of the damaged vehicle (which) is another very large contributing factor (to the cost of automobile insurance).

And, Mr. Speaker, there is continued concern in the public mind of whether or not excessive profits are being earned by the insurance companies and/or their agents.

In the "Report of the Manitoba Automobile Insurance Committee, 1970" there were also statements regarding perceived problems with the automobile insurance system. Regarding the insurance system in general the report stated that:

the present method of insuring automobiles and compensating the victims of automobile accidents for their losses in respect of bodily injuries and damaged property is inadequate, expensive, and confusing to the public.

Regarding rates and cost of operating an insurance plan it stated that:

Whereas the rating formula used by the private insurance industry in setting rates calls for the allocation of sixty-seven percent of the premiums for the payment of claims and claims adjustment expenses, and thirty-three percent for acquisition and administrative expenses, the Saskatchewan plan has been operated at an expense factor of 16.55 percent ... there is an approximate saving

of sixteen percent in the expense factor¹² compared to the formula used by the private insurance industry.

Regarding claims the committee said that:

The majority, if not all of the presentations made to the committee by private citizens were in the form of complaints and dissatisfaction with both the amount of compensation they had received from their insurance company, ... and the lack of service in practical terms, in the form of assistance and advice from their own insurance agent and insurance company.¹³

The complaints made to the Committee in connection with claims were of delays in settlement, the amount of settlement received, and the process through which claims are paid.¹⁴

The public concern over various aspects of the automobile insurance industry was reflected in a series of governmental enquiries into the automobile insurance industry in different provinces in Canada and in the United States.

Studies were made by the following groups:

- 1946 - The Saskatchewan Government prior to introduction of a public insurance plan
- 1956 - Nova Scotia Royal Commission on Automobile Insurance
- Ontario Special Legislative Committee on Automobile Insurance
- British Columbia Special Legislative Committee on Automobile Insurance
- Prince Edward Island Special Legislative Committee on Automobile Insurance
- 1965 - Nova Scotia Board of Commissioners of Public Utilities
- 1967-68 - Manitoba Special Legislative Committee on Automobile Insurance
- 1968 - British Columbia Royal Commission on Automobile Insurance (Wooton Commission)
- 1969 - Alberta Special Legislative Committee on Automobile Insurance
- 1969 - Manitoba Automobile Insurance Committee enquiry, under the Progressive Conservative government

1971 - Nova Scotia Royal Commission on Automobile Insurance

The NDP Commitment

The commitment of the Manitoba New Democratic Party to public automobile insurance was also an important factor leading to its introduction in Manitoba. The NDP, and prior to that the CCF had long advocated public ownership and operation of automobile insurance.

Russell Paulley, the provincial Minister of Labour summed up the situation in remarks to the Manitoba Legislative Assembly. He said,

Mr. Speaker, ever since there was a CCF Party in the Province of Manitoba, we've been fighting for what we're going to do in this session of the Legislature, and that is to institute a system of government operated automobile insurance that has as its basic policy the protection, the protection of motorists, of pedestrians, and all of the people concerned in the Province of Manitoba. This is our objective.

The original ideological NDP stand on public ownership of automobile insurance was contained in the founding policy statement of the CCF Party, the Regina Manifesto in 1933. The Manifesto advocated, "Socialization of all financial machinery - banking, currency, credit and prices, and the supplying of new productive equipment for socially desirable purposes."¹⁶ Socialization of financial institutions was advocated in conjunction with centralized planning of the economy because, "Planning by itself will be of little use if the public authority has not the power to carry its plans into effect. Such power will require the control of finance and of all those vital industries and services which, if they remain in private hands, can be used to thwart or corrupt the will of the public authority. Control of finance is the first step in control of the whole economy."¹⁷

"The thinking set forth in the Regina Manifesto provided the ideological basis of CCF policy for the following twenty-five or thirty years."¹⁸ However, rationale for public automobile insurance changed to one of providing a lower cost service to the public rather than control of financial resources.

Election of a provincial CCF government in Saskatchewan in 1944 and successful introduction of a public automobile insurance program in that province in 1946 provided a stimulus for those in other provinces who favoured public automobile insurance.

Industry Reactions

There was very little industry reaction to public criticisms and NDP statements. One reason was that no threat to the industry was perceived. Another reason was the difficulty of instituting changes in the industry.

For major changes to be initiated in the automobile insurance system two things were necessary. The first was agreement among the companies to take a specified course of action and the second was approval from the provincial governments involved, often involving legislation, to go ahead with the new system.

The difficulty of arriving at a common industry course of action was illustrated by the general manager of a Manitoba insurance company, who indicated that in order to provide improvements in claims service certain people in the industry tried for ten years to get a joint claims centre established in Toronto.¹⁹ He also indicated that, "companies were reluctant to agree with each other on commonly accepted courses of action for reasons of competition

and not wanting to let someone else get ahead of them."

Another example, although it was in 1972, indicated the difficulty of formulating an industry position on the issue of no-fault insurance. In a submission to the Nova Scotia Royal Commission on Automobile Insurance the Insurance Bureau of Canada stated,

The most controversial and perplexing issue facing automobile insurers today is whether economies and improved service to the public can be achieved by introduction, in some degree, of the no-fault concept with restriction of tort into a system of insuring damage to colliding automobiles. Despite lengthy, intensive study, the views of Members of the Bureau have not yet polarized to the extent of reaching a consensus.*²⁰

Another example of the slowness in instituting changes in the system is that it took eight to nine years from the time companies started talking about no-fault accident benefits in the early 1960's until all the steps, including industry agreement and provincial government approval were completed to allow this new concept to be introduced.²¹

These examples illustrated that even when time and effort were specifically devoted to finding common industry approaches to issues of importance the required inputs were large, and even then, there was no assurance that a common industry position would be arrived at.

As mentioned above, the industry did not perceive any threat that an NDP government would be elected. This point was well illustrated in the case material when Jim Harbun surveyed the political environment in Manitoba and was told that the province was bound to remain a Progressive Conservative stronghold.

As a result of this combination of factors there was little

* Authors emphasis.

incentive to initiate change in the industry.

Election Campaign in 1969

On May 22, 1969 Premier Walter Weir, anticipating a public vote of confidence in his new leadership, announced a provincial election for June 25th. On Saturday, June 7, 1969 Edward Schreyer was elected leader of the Manitoba NDP.

One plank in the NDP campaign platform was public automobile insurance. Campaign literature indicated that,

An NDP government would introduce a publicly operated car insurance plan to provide automatic compensation for victims of traffic accidents, at a much lower cost.

Mr. Schreyer was quoted at the nomination meeting in his own riding as saying that within the party they had,

excellent professional advice and are prepared to explain to the public how it is possible to bring the (auto) insurance (price) down by twenty-five to thirty percent. It can and will be done.

At the time of the election campaign Mr. Schreyer was receiving advice on automobile insurance from D.A. Randall.

Prior to the 1969 election there was no concern among agent or company representatives about the possibility of a public insurance plan being introduced. There had been no concern about the Progressive Conservative government's Special Legislative Committee investigating Automobile Insurance and it was not thought that a New Democratic Party government would be elected. There was no industry participation in the election campaign. On June 26, 1969, the day after the election, at a meeting of the Insurance Agents Association the report by Mr. D'Eschambault, the chairman of the automobile committee, indicated that, "There were no recent developments affecting

his committee."²⁴ Obviously the report had been written prior to the election.

Immediate Post-Election Period

Government Actions

On June 25, 1969, Mr. Schreyer, to the surprise of almost all Manitobans including elected and unelected members of the NDP, led his party to a minority victory over the Progressive Conservatives. In the process the crumbling Liberal party was reduced from fourteen seats to five. Mr. Schreyer's analysis of the election results was that the NDP had won for three reasons: (a) they had the policies to win the confidence of the people, (b) they had good people (candidates), and (c) they were fighting a government that had run out of steam.²⁵

The night of the election it was indicated that if the New Democrats formed the next government the two priorities on an expected July session of the Legislature would be a cut in medicare premiums and introduction of a new public auto insurance scheme. The next day, at his first press conference after the election, Mr. Schreyer indicated that one of the legislative priorities would be to introduce a "public auspices auto insurance program."²⁶

A significant development at this time was that Larry Desjardins, who had been elected as a Liberal in St. Boniface, announced on July 1st, that he would sit as a Liberal Democrat and support the NDP government. This decision, which was to affect the later course of events respecting automobile insurance, gave the NDP a working majority.

The NDP began to actively plan for public auto insurance.

Although uncertain what the details of a plan would be, they did know they wanted to proceed towards a public plan rapidly. Referring to automobile insurance in a letter to Ed Schreyer, D.A. Randall said that, "In order to meet the deadline of September this year, much remains to be done."²⁷

In the month following the election the problem of finding people to deal with the automobile insurance question was handled by Saul Cherniack the Minister of Finance, as part of his overall responsibility to evaluate staffing and the cabinet structure. First concern was to hire someone to be responsible for providing advice on automobile insurance. In a letter to Allan E. Blakeney, at that time a lawyer in Regina, Mr. Cherniack indicated that R.D. Blackburn was, "considering accepting the responsibility for studying and recommending a proposed auto insurance organization and would then be expected to assume responsibility for it, managing it on a permanent basis,"²⁸

After hiring Mr. Blackburn, Mr. Cherniack's responsibilities for automobile insurance terminated. Howard Pawley, the Minister of Municipal Affairs, became responsible for all activities concerning automobile insurance.

Although, as indicated by Mr. Cherniack's comments above, the NDP were committed to a government operated insurance plan, public statements by Premier Schreyer indicated that the companies would be given an opportunity to retain their business. On an open line radio program on July 16, 1969 Premier Schreyer indicated that, "the government will give private companies a chance to reduce car insurance premiums voluntarily but if they fail to do this the government will have no reluctance in following Saskatchewan's lead in setting up a

public car insurance scheme."²⁹

Industry Actions

In the period immediately after the election there was a great deal of confusion among agents and company representatives. Industry managers did not know what action they should take, they did not know what the plans of the government for reviewing the industry were, and they did not know what type of people the new Premier or his cabinet members were. In a series of meetings involving Insurance Bureau of Canada directors and staff and insurance agents it was decided to approach government representatives and offer to work with them to review the industry. Alternatives considered included beginning an immediate campaign to defend the industry in the province and beginning a campaign against the NDP government in the province. The decision to attempt a co-operative approach with the government was based in part upon a traditional pattern of working co-operatively with government on matters of concern and in part upon an evolving profile of Ed Schreyer as a moderate, social democrat who was willing to co-operate with business and who did not believe in socializing business for its own sake. The profile was developed from published newspaper interviews with Mr. Schreyer and from speeches he was giving at the time.³⁰

Subsequent to their meetings, representatives of the Insurance Bureau of Canada and the Insurance Agents Association of Manitoba requested a meeting with Premier Schreyer and Mr. Pawley. On July 29, 1969 they were advised that the meeting had been arranged for August 7, 1969.³¹

Jim Harbun became very concerned after the election. He was quite vocal in a July meeting of the Insurance Agents Association of Manitoba, called to try to work out the approach to be taken in the forthcoming meeting with Premier Schreyer. According to Mr. Harbun the general approach adopted was to try to work in conjunction with the government and have the government tell the industry what was required of it. The industry would then endeavour to meet these requirements.³²

Meeting of Industry Representatives
with Premier Schreyer and Howard
Pawley

The meeting with Premier Schreyer and Howard Pawley was held in the Premier's office on August 7, 1989. Mr. Tatlock and Mr. Cooper represented the Insurance Agents Association of Manitoba at the meeting. H.B. Vannan, R.H. Stevens, president of the Canadian Underwriters Association, and G.C. Trites of Wawanesa Mutual Insurance Company represented the Insurance Bureau of Canada. G.W. Rattray represented the Canadian Federation of Insurance Agents. In the meeting the insurance industry managers addressed their remarks primarily to Premier Schreyer. In the discussion about the problems the government perceived with respect to automobile insurance and about the review of the industry which would take place before any government action, the industry representatives were impressed with Premier Schreyer and his open-minded, co-operative approach to the subject.

Premier Schreyer and Mr. Pawley indicated that the industry would be given every opportunity to present their case and initiate discussion of their own ideas for potential improvements in the

existing system. A joint government-industry committee was discussed as was an industry committee to act as advisors to a government group reviewing the system. No commitment was made by the government to any definite format for a co-operative government-industry study of auto insurance.

Industry Reaction to Meeting

The insurance industry managers were of the opinion that the meeting had been fruitful. They were much more optimistic about the future of the industry after the meeting than they had been before, because they felt that once they had an opportunity to present their side of the case they could convince the government to not implement a public plan.³³ The meeting had the effect of reducing the concern of the industry representatives because they felt pretty comfortable about the chances of resolving differences with the Premier.

In a September 4, 1970 report to the Insurance Bureau of Canada Mr. Vannan commented on the meeting as follows:

We found Mr. Schreyer very attentive and well briefed on some of the problem areas in the automobile insurance area and after a fairly lengthy conversation it was agreed that the insurance industry would work with the Manitoba Government either as part of a committee or as an advisory board to explore ways and means of resolving some of the problems surrounding automobile insurance.

Action After the Meeting

Government Action

The Throne Speech of August 14, 1969 indicated that, "a consultative body will be set up to look into the possibility of a government-run auto insurance plan."³⁴

Membership of the "consultative body" was a subject of Cabinet

consideration. The question of including representatives of the automobile insurance industry on the committee as discussed in the August 7th meeting was discussed in Cabinet. Cabinet members felt they were trying to set up something new and had little knowledge of it. They did not want to be overwhelmed by a bunch of "experts" with a point of view which they knew, based on previous industry criticism of the Saskatchewan scheme, was contrary to the concept of government insurance of interest to them.³⁵ Consequently it was decided not to include industry representatives on the committee. Mr. Pawley stated the situation as follows:

the government's opinion was that if you had representatives of any special interest group, representing that interest group on this committee, when in fact this committee was enquiring into areas that concerned that special interest group, (this) would be contrary to the general practise insofar as the establishment of Committee's such as this.³⁶

Industry Actions

On September 12, 1969 a letter containing a suggested list of subjects for study in a review of the industry and a list of industry personnel available to assist with the review was sent to Premier Schreyer by Mr. Vannan.³⁷

Mr. Pawley's October 15th reply³⁸ to Mr. Vannan's letter indicated that the government intended to appoint a committee shortly but that terms of reference for it had not yet been enunciated.

Howard Pawley and H.B. Vannan held a number of meetings (three to five) during the two and one-half month period after the meeting. The first meeting was held at lunch time, on the invitation of Mr. Vannan, at the prestigious and exclusive Manitoba Club. Subsequent to this, luncheon and dinner meetings were, at Mr. Pawley's request,

held in different public restaurants. One of the meetings was also attended by Sam Uskiw the Minister of Agriculture. Mr. Vannan viewed the meetings as a forum for trying to get someone on the government side to understand and appreciate the position of the industry. To accomplish this, Mr. Vannan and other industry managers present sought to inform Mr. Pawley about the complexities of the insurance industry, the difficulties of affecting change in the industry, and the advantages of private enterprise over public ownership. Mr. Pawley, who knew little about the insurance industry, was primarily interested in learning about different aspects of the industry, particularly no-fault insurance.

Messrs. Trites and Holden of the Wawanesa Mutual Insurance Co. also held meetings with Mr. Pawley during this period.

The general approach through September and early October, 1969, continued to be to co-operate with the government and offer whatever assistance was possible or requested.

In early October 1969 the government announced that R.D. Blackburn had been hired as a consultant and that an office on Wellington Avenue had been established for the committee. This led the executives of the I.A.A.M. and the I.B.C. to suspect that the government might take action without consulting with them as they had been led to expect. They were still, however, on the basis of their meeting with Premier Schreyer and Mr. Pawley, counting on participating in any committee to be established.

The following notice was sent to all members of the I.A.A.M. in October 1969:.

TO ALL MEMBERS ...

We didn't expect this to happen so suddenly, but -- we're pressing the survival button. Information leads us to believe that the Government intends to implement an Automobile Insurance Plan in Manitoba.

This is a crisis -- our backs are against the wall. It's a sudden death game -- sadly, quite literally for some agencies. Action is planned. We're convinced our business is worth saving.

Complete plans of action will be unveiled and discussed at our Annual Meeting, October 21, 1969, at 1:00 p.m. at Champs Motor Inn, Winnipeg. Your duty is to attend. Be prepared to approve an assessment to finance the fight for the retention of this premium income.

George Tatlock
President

At the annual meeting of the Insurance Agents Association of Manitoba, members agreed to pay a special assessment of \$100.00 per member of the Association to provide funds for a campaign against any attempted government take over of the business. This was after much discussion of, and speculation about, the government's intentions. George Tatlock indicated that the money collected was not intended as a "war chest." He said that the Association was, "not at odds with the government, as yet, for the simple reason the NDP had not made any concrete statements since assuming office."³⁹

Mr. Jack Robertson, president of the British Columbia agents association, outlined, on the basis of his recent experience in British Columbia with the Wooton Commission, the time and cost involved in presenting a good brief to a government committee.⁴⁰

The previous evening John Nagle, vice-president of the Canadian Federation of Insurance Agents and Brokers Association from the Maritimes told the meeting of agents that in the coming enquiry into auto insurance they could "anticipate the usual storm of emotional

but unfounded accusations of exorbitant profits by insurers and agents alike, and we must if past experience is any criterion, anticipate that somewhere in the forces of government there lurks an unknown and unsung genius - determined not to be confused by the facts, but convinced that by divine revelation, he has been blessed with the one valid solution to the problem of auto insurance." "We must also anticipate that he and his cohorts, with the blind zeal of true evangelists, are prepared to ram their solution down the throats of the insuring public, whether they like it or not."⁴¹

Howard Pawley, who had been sitting at the head table beside Harley Vannan during Mr. Nagle's speech was advised by Mr. Vannan, that he needn't feel obliged to stand when Mr. Nagle received a standing ovation at the end of his speech. Mr. Vannan remained seated with Mr. Pawley.

The Automobile Insurance Committee
Hearings

The terms of reference of the Automobile Insurance Committee approved by the Cabinet on October 29, 1969, were:

- (a) To investigate the feasibility of instituting a program of public automobile insurance and to hear and consider representations respecting all aspects of automobile insurance.
- (b) To make recommendations deemed to be in the public interest.
- (c) To submit draft legislation.

The terms of reference explicitly reflected the desire to consider the feasibility of a public automobile insurance scheme as an alternative to the existing system. There was also a desire, as indicated by the reference to draft legislation, to have the committee come up with a specific plan rather than make general recommendations.

Members of the committee were Howard Pawley as Chairman, R.D. Blackburn, and Frank Pagon, a retired insurance adjuster from Brandon. D.A. Randall was Secretary to the committee.

Announcement of the committee created a great deal of controversy.

On November 3, 1969 Mr. Pawley wrote a letter to Mr. Vannan⁴² indicating a desire to take advantage of whatever facilities, and statistics the industry was prepared to offer. He indicated a willingness to meet from time to time with a committee representing the industry and suggested that he and Mr. Vannan meet privately to discuss the proposal.

On the same day Mr. Vannan sent a letter to Mr. Pawley.⁴³ The letter was made public and was reported by both the Winnipeg Free Press and Winnipeg Tribune on November 4th. The letter was critical of the government's decisions on the membership, terms of reference and operating procedures of the committee and the manner in which the government had made these decisions without consulting the industry. Mr. Pawley's reactions to Mr. Vannan's public letter were amazement and disappointment. He felt that it would have been more appropriate for Mr. Vannan to have contacted him by telephone with his criticisms and questions.⁴⁴

The decision to depart from the policy of attempting to work with the government, and take a tougher approach at that point in time was initiated by Mr. Vannan because of a feeling that little progress was being made by trying to co-operate with the government. It was based upon the assumption that the government was politically vulnerable and, if public pressure could be brought to bear on them

concerning the way they were conducting the industry review they might be forced to change their approach to the review or even to forget about the industry. There was also a feeling that industry representatives had been naive in not attempting to influence government decisions previous to that time because they had been, "too busy hoping that tomorrow they would get a chance to meet with them (the government) to reason things out."⁴⁵ Mr. Vannan had also received advice from representatives of Public and Industrial Relations Ltd. that public attention and support for the industry could only be generated by making use of attention getting public statements.⁴⁶

One result of the change in approach was to cut down on informal communication between industry representatives and the government. For example, on November 12, 1969 after a meeting of the Board of Directors of the Insurance Bureau of Canada Mr. Vannan wrote to Premier Schreyer⁴⁷ asking for a meeting with the Premier and Mr. Pawley to try to re-establish communication between the government and the insurance industry.

In his reply to Mr. Vannan's letter⁴⁸ Premier Schreyer indicated that he and Mr. Pawley did not believe it would be a good idea to meet while the Automobile Insurance Committee was holding public hearings. The Premier suggested that whatever points Mr. Vannan felt required consideration could be raised with the Automobile Insurance Committee when the I.B.C. met with it.

The cutback in communication was also indicated in a memo from Mr. Pawley to Premier Schreyer concerning a proposed meeting between the Premier and E.M. Brown, General Manager of the Portage la Prairie Mutual Insurance Co. Mr. Pawley wrote:

I have received copy of the letter forwarded to Mr. E.M. Brown, General Manager of the Portage la Prairie Mutual Insurance Company, in which you have indicated that you would like to meet Mr. Brown for lunch on Friday, December 12th.

It is my feeling that this meeting at this point may be inopportune. I think that other members of the industry will hear of the meeting and some of them will request a similar meeting. The committee has already heard from Mr. Brown in respect to his analysis of the problem at hand. I would think that there would be more value in our meeting with Mr. Brown after the Committee has made its recommendations so that there could be a discussion relating to those recommendations at that time. However if the meeting is to be held one might consider inviting Mr. Blackburn to attend also.

Howard Pawley

The meeting was subsequently postponed until January 1970.

Public Hearings and Briefs Presented

In total, the Automobile Insurance Committee held public hearings on nineteen different days, the last one on December 30, 1969. Forty-five different groups or individuals were called as witnesses by the Committee. There were 2,976 written communications received by the Committee, 2,920 from the general public. Most of the letters from the general public were the result of organized write in campaigns. They were divided between those favouring public insurance and those opposed to it.

Mr. Pawley indicated on the first day of the hearings, November 3rd, that the government intended to implement some legislation in the spring, but if representatives of the auto insurance industry were able to prove that changes could be made in the insurance industry without involving a government plan then legislation to that effect would be drafted.⁴⁹

The first meeting was held at the offices of the Automobile

Insurance Committee, in an old school building at 1075 Wellington Avenue. Mrs. S. Manson, a secretary of the Committee, indicated that because of the number of insurance agents attending and their belligerent attitude it was pretty "scary" to her.⁵⁰ After the first day of public hearings it was decided that because the response had been so great subsequent hearings in Winnipeg would be conducted at the Legislative Building.

The Insurance Agents Association of Manitoba presented their brief on December 8, 1969.

After the announcement that hearings were to be conducted by the Automobile Insurance Committee the directors of the I.A.A.M., at a meeting on November 1, 1969, gave a directive to Mr. Cooper to proceed as outlined by Jack Robertson from British Columbia and secure professional help to prepare, and assist in presentation of, a brief for the Association. The consultant hired was Gordon Root, who had assisted the Insurance Agents Association of British Columbia prepare a brief for the Wooton Royal Commission on automobile insurance in that province.

The brief presented to the Automobile Insurance Committee was based upon the assumption that the industry would remain in private hands. It dealt at length with the system in Saskatchewan, indicating that:

The most telling argument against any significant change in the form of automobile insurance, rests in the evolution of the Automobile Insurance Act in Saskatchewan.⁵¹

They said that the simplicity of the Saskatchewan flat rating system could not be duplicated in Manitoba and that even Saskatchewan would probably have to become more sophisticated in their rating

methods. They provided examples which indicated that in Manitoba, a "safe, mature driver, ... generally pays less for his policy than his counterpart in Saskatchewan."⁵²

The submission also dealt with the importance of the insurance agent to the system by indicating the wide variety of services they provided to clients. Other subjects covered included a rebuttal of a point in another brief (Sylvan Leipsic's) that agent's commissions could be reduced to 2.5 percent; claim centres; vehicle testing and traffic safety; private versus public insurance schemes; and gasoline taxes as a potential alternative means to finance automobile insurance.

In preparing the brief there was a great deal of discussion and consideration of alternative means of presenting the insurance agents case. It was indicated by an agent involved that Mr. Root advocated agents should not link themselves closely with the insurance companies in making their case to the government. Instead they should present their case with a view to what arrangement they could make for themselves if the government did introduce a public plan. The prevailing sentiment among the directors and executives of the I.A.A.M. was that their position should not be one which would tend to "drive a wedge" between the companies and the agents. The overriding concern of the I.A.A.M. was that the private insurance industry would be replaced by a public scheme. It was felt that attempting to suggest contingency plans in the event a public scheme was introduced would be tantamount to playing into the governments' hands. After the temporary resignation of R.A.S. Cooper on November 21, 1969,⁵³ Mr. Root's approach was rejected.

The submission to be presented to the Committee on December 8,

1969, was accepted as final by the directors of the I.A.A.M. on December 1, 1969. At the same meeting it was also suggested that policy holders be encouraged to send letters to the Committee to combat the flow of letters coming from union organizations. There was also some consideration of the alternative of making all, or parts of, the submission public prior to the hearing, as it was felt it would be excellent publicity against the government. It was agreed, however, that the contents of the brief be kept confidential until after presentation to the Committee. ⁵⁴

George Tatlock, with Gordon Root's assistance, presented the I.A.A.M. submission to the committee on December 8, 1969. The hearing room in the Legislative Building had insufficient room to accommodate all the agents who attended.

Mr. Pawley indicated, in an interview with the author, that the factually based arguments of Mr. Root in their meetings and in the submission to the Automobile Insurance Committee had impressed him. R.D. Blackburn, however, indicated that he had not been particularly impressed with the arguments of the agents and Mr. Root that a government scheme was less effective than private insurance. This was because he was familiar with the system in Saskatchewan and knew that it worked.

Sylvan Leipsic, a member of the board of directors of the I.A.A.M., participated in the discussion about the type of brief the association should present to the Automobile Insurance Committee. Some of the questions of concern to him with respect to the brief were:

- (a) the use of statistics from Saskatchewan to say that the program had not been a success in that province, and
- (b) the comparison of.

rates between Manitoba and Saskatchewan. The problem he perceived with these approaches was that they were just negative statements about the possible government proposals and offered no viable alternative. Simply attempting to tear down the government proposals was not felt to be an adequate approach.

The compassionate approach advocated by Gordon Root was not felt, by Mr. Leipsic, to be viable. He had contact with some members of the Cabinet and knew that their thinking was based upon the belief that the government could provide a better service at a lower cost than private industry and that, furthermore, they intended to go ahead and do it. The main consideration was the government belief that they could provide a lower cost product.⁵⁵ Other directors of the agents association were not receptive to Mr. Leipsic's proposed approach of trying to address the concerns and questions of the government.⁵⁶

One consequence of the discussion and controversy over the proper approach to take was that Sylvan Leipsic decided to make a personal submission to the Automobile Insurance Committee.⁵⁷ The brief was well received by the committee. Howard Pawley subsequently said that the brief was, "One of the most impressive submitted ... This is because it dealt with issues and took an approach to the problem which was more useful to the Committee. It was primarily on the basis of this brief that Mr. Leipsic was subsequently appointed to the Board of Directors of the Manitoba Public Corporation."⁵⁸

The Insurance Bureau of Canada met with the Automobile Insurance Committee to discuss their brief on December 5, 1969. Representatives of the I.B.C. included Mr. Vannan as chief spokesman, G.C. Trites of Wawanesa Mutual, Carl Wilcken, chief actuary of the

Insurance Bureau of Canada and Bob Warkentin, Assistant Automobile manager of Canadian Indemnity who had been assisting in gathering information on the issue. Contents of the brief had been decided upon by I.B.C. staff in Toronto. The brief consisted of the same material presented to an Alberta legislative enquiry into automobile insurance.

The hearing on December 5, 1969 was an example, although an extreme one, of the ill feeling that prevailed between the industry and the committee. At times the meeting was very heated with Mr. Vannan and Mr. Pawley exchanging angry words. The major points of controversy related to whether I.B.C. representatives should be permitted to ask questions of the committee, rather than just, as they put it, be cross-examined. This point arose from the original discussion on August 7th when a method for joint government-industry consideration of the issue was discussed and from Mr. Schreyer's letter of November 28, 1969 in which he indicated, "I know that you will raise with the Committee all the points which in your opinion require clarification."⁵⁹ At one point Mr. Pawley had the recording equipment turned off.⁶⁰

Preparation of Report by
Automobile Insurance Committee

During the period from when the Automobile Insurance Committee completed its public hearings until the report was presented there was relatively little interaction between government and industry representatives. However, during the period the government plan was laid out in detail and some basic industry decisions concerning the future course of action to take were made.

The Government Decision

The Automobile Insurance Committee began to seriously consider its recommendations as the public hearings drew to a close around the end of December 1969.

A summary of a meeting of the Committee on December 29, 1969 indicated that the alternative being considered at that time was a plan which would see the government offering only accident benefit insurance, and leaving collision and liability insurance for companies. Eventually the government would offer the other categories of insurance as well.⁶¹ A plan such as this, which would start off with a small portion of the insurance and be expanded subsequently, was felt by Mr. Blackburn, based on his experience with the introduction of the plan in Saskatchewan, to be easier to handle administratively. Mr. Pawley, however, felt that such a limited plan would cover too small a proportion of the total premium to allow for a significant reduction in insurance rates as promised in the election campaign. Consequently, although it was recognized that administratively the plan would be more difficult to introduce, it was decided to recommend a plan offering all three types of coverage.

The contents of the report of the Committee were decided upon by the end of January 1970. During the period Mr. Blackburn and Mr. Pawley met very frequently (often daily). Meetings had to be arranged at various times in consideration of Mr. Pawley's other ministerial responsibilities. The two of them discussed the recommendations to be made, generally with Mr. Blackburn making various suggestions to Mr. Pawley for comment and discussion.

One thing which had a substantial effect on the outcome of the

Committee report was a visit by the Committee to Saskatchewan to talk to officials of the Saskatchewan plan. The visit to Saskatchewan made a great impression on Howard Pawley by, "demonstrating that many of the blasts hurled at the Saskatchewan scheme by their opponents were not true. The success of the scheme in Saskatchewan, as it was sensed, provided an example to the Committee that public insurance could work, and furthermore that it could work to the satisfaction of its employees and the public."⁶² Mr. Blackburn was already aware that the plan worked as he had previously been employed by the S.G.I.O. and had been to Saskatchewan a number of times since being hired in Manitoba. The Committee also felt that the industry had not seriously attempted to take the initiative to show how they could improve the existing automobile insurance system without government intervention.⁶³

The report of the Committee, completed in late January or early February, recommended a public insurance scheme for basic accident, collision and liability coverage. The insurance was to be distributed through the motor vehicles branch of the provincial government. The private companies would be able to write all of the extension business above the basic coverage. Extension coverage would be sold through the existing agent network. The report was written in most part by R.D. Blackburn. D.A. Randall wrote the first draft of portions of the report, but these were heavily edited by Mr.

Blackburn.⁶⁴

At a meeting in Mr. Pawley's office in late January 1970 attended by Howard Pawley, R.D. Blackburn and Ken Goldstein, it was suggested by Mr. Goldstein that a potential area of difficulty with

respect to the report recommendations was the minimal role it accorded to agents:

Drafting of legislation commenced around the beginning of January 1970. The drafting, which was a long complex process was done by Myron Kuziak, a lawyer seconded to the Committee from the Attorney General's Office. He was experienced with the Saskatchewan plan and had originally been hired on the understanding that drafting the automobile insurance legislation would be part of his duties.

The Throne Speech opening the second session of the 29th Legislature of Manitoba on March 12, 1970 said that: "My government will introduce changes in legislation affecting automobile insurance in order to bring about greater benefit to Manitobans. Systematic review of automobile insurance in Manitoba and in other jurisdictions in recent years have found that greater equity and efficiency can be achieved."⁶⁵ Although the report had been completed at this time the statement was left vague because of a desire to not create a confrontation with the insurance industry earlier than necessary.⁶⁶

Premier Schreyer, in response to newspaper interviewer requests for specifics, said, "Elaboration on this matter is impossible because we have not yet reached any final decision on this matter."⁶⁷ Walter Weir interpreted the government's position as undecided in his reply to the Speech from the Throne when he said, "I kind of gather from what I see in the press of recent days that the reason that there seems to be for it not being definite is that the government hasn't yet made up its mind."⁶⁸

Actions by Insurance Agents
Association of Manitoba

At a meeting of the directors of the I.A.A.M. on Monday, January 5, 1970 George Tatlock commented upon his recent trip to Flin Flon where the Automobile Insurance Committee had held its final public hearings. He indicated that from the information he had gathered at that time the government had not yet made up its mind on methods or plans for public insurance, but that Mr. Pawley was receiving great pressure to introduce a public scheme from union spokesman who contended that the NDP had promised them cheaper auto insurance premiums. Mr. Tatlock favoured continuation of a co-operative approach. Excerpts from the minutes of the meeting which follow indicate the alternative means of handling the campaign considered at that time.

One of the directors in commenting on a union brief which he had prepared a public rebuttal for,

stated that he had presented arguments for our standpoint which he had hoped would be published in the same edition, but unfortunately the news media had taken very little notice of them and he was upset because of the lack of co-operation in this regard. He was strong in stating that we had to stop pussy footing and begin to wage war mainly because of the difficulty in getting proper media releases. He stated that he did not agree with the campaign to preserve our income. He felt that we were going along with the Government too much, in other words on a friendly basis. He stated that it was shaping up to a knock down, drag out fight. He felt that we must tackle the problem with more determination. He advocated the beginning of a ground swell in the rural areas, putting all pressures on their local politicians. He stated that the government must be shown that votes will not be available if legislation is enacted to effect the agency system. He outlined the campaign he wished to wage putting forth every bit of information as to what Government Insurance really means. He proposed to send letters to all agents in the provinces giving them facts, figures and arguments for not having government insurance. He recommended that we tackle things in a more aggressive attitude. We must make a more concerted effort to get local radio, chambers of commerce, newspapers to tell the people just what government insurance really meant.⁶⁹

Although there were some reservations about a more aggressive public approach the following motion was passed:

that a ground swell of information be instituted by every agent in Manitoba to inform the public of our present situation and that the association take immediate steps to establish useful contacts with specific members of the communication media with the view of increasing the use of the media.⁷⁰

A preliminary plan of action for January and February 1970 was drawn up and distributed to all members of the I.A.A.M. It included lists of speakers who could be called upon to talk to local organizations. It included suggestions that agents talk to the leaders of their respective communities and present the case for the automobile insurance industry. Agents were also encouraged to respond to criticisms of the industry.

During this period Gordon Root's role was changed and he was given less autonomy in his operations to establish contact and talk with government representatives independently. There had been some disagreement over his independent approaches to Howard Pawley.

The program did not initially generate the public support and enthusiasm which had been hoped for. One of the observations made by those involved at the time was that unless people felt immediately threatened by the government they would not support some group which was. To attempt to generate public enthusiasm for the agents situation a budget for a series of newspaper advertisements was approved by the directors of the I.A.A.M. on February 16, 1970.

During this period liaison continued with the other major industry group involved in the situation, the Insurance Bureau of Canada. Discussions in this forum also centered around how it would be possible to arouse public support and enthusiasm for the predicament

faced by the industry. It had been agreed in the company agent liaison group that: (1) the agents commanded greater public support than did the companies, and (2) it was better to handle the campaign locally with local people rather than to introduce outside people other than on a specific, advisory basis. As a consequence the campaign was directed primarily by and through the agents who were able to draw upon company personnel for advice and assistance.

Insurance Bureau of Canada Actions

During the hearings of the Automobile Insurance Committee I.B.C. representatives concluded that the government was not sincere in statements that it would give the industry a fair hearing and a decision was made to approach the issue in a political manner.

It is our considered opinion that the Manitoba Automobile Committee have made up their minds to recommend to the government to take over the automobile insurance business in this province.

The only basis on which they can be discouraged is if they feel that such a move will be politically unacceptable to the people of Manitoba.⁷¹

Mr. Vannan was the chief proponent of shifting the emphasis of the campaign to become more politically oriented. As alternatives to a political fight, which it was felt the industry had little chance of winning, some companies were advocating that they should simply quit offering service in Manitoba and leave the government to handle the very difficult situation which this would cause. It was decided that it would be irresponsible to do this because the people who would be hurt most would be the public. Another alternative put forward was to co-operate and let the government go into the auto insurance business if they agreed to let a group of industry people run the business. A

further alternative was to encourage limited government entry into the business with the government handling only the accident benefit coverage. Another consideration in reaching the decision to fight the government on a political basis was that it would give industry people in other provinces such as Ontario some material with which to fight the election of socialist governments in their areas.⁶⁴

Activities in the first three months of 1970, before the government announced their plans for automobile insurance were rather limited and included:

- (a) Speeches to various organizations such as service and community groups.
- (b) Continuation of meetings with representatives of the Insurance Agents Association of Manitoba.
- (c) On March 3 and 4, 1970 a pamphlet was distributed to all Manitoba households. The pamphlet included a reply card addressed to the Agents' Association. Agents were urged to contact as many clients as possible to fill in their cards in favor of free enterprise. Public and Industrial Relations Ltd. helped to develop the pamphlets.
- (d) Guarded comments from the Throne Speech indicated that the government would introduce changes in legislation affecting automobile insurance. For example, after the Throne Speech G.C. Trites of Wawanesa Mutual said, "I think it is a healthy sign. It was pretty vague and a lot less definite than they (the government) were six months ago."
- (e) A meeting was held with Mr. Pawley about two weeks before the report was released. This meeting was also characterized by friction.

Submission of Committee Report and First Reading

On Wednesday morning, April 22, 1970 the auto insurance bill, Bill #56, was introduced to the Legislature for First Reading. On the afternoon of April 22nd the Report of the Manitoba Automobile Insurance Committee was tabled in the Legislature. The major

recommendation of the report was that motorists be required to buy basic automobile insurance coverage from the government. The basic features of the recommended plan were: minimum \$50,000 liability insurance; maximum weekly accident benefits of fifty dollars; a schedule of benefits for injuries up to \$6,000; higher surcharges for young drivers; and a compulsory comprehensive coverage of \$200 deductible.

In a subsequent interview Mr. Pawley pointed out that the committee hadn't discussed compensation for insurance agents and companies, but that he hoped it would be possible for them to get into other ways of earning money. He also said that if private companies did a poor job of supplying supplementary coverage the government would enter this area on a competitive basis. He estimated it would be the spring of 1971 before the report could be implemented.

Walter Weir, Leader of the Progressive Conservative opposition, felt that the three man committee had made up its mind in advance. The report was proof to him that a "kangaroo court" had held the hearings. The big question in his mind was whether it would operate on a competitive basis with private industry. He intended to reverse further comment until seeing the proposed legislation.

The immediate industry reaction was varied, either being a condemnation of the report, a request for more time to study it, or a desire to see details of the legislation before commenting.

Industry Reponse

Prior to First Reading of Bill 56 and tabling of the "Report of the Manitoba Automobile Insurance Committee" the I.A.A.M. and I.B.G.

had no firm indication of what action the government intended to take. However, they definitely suspected on the basis of the governments' election commitments and the nature of the hearings of the Automobile Insurance Committee that a public plan of some sort would be introduced. In discussion of the agent - company liaison committee about how the industry could arouse public interest and get public support behind them the idea of a demonstration, or rally, of people who supported the insurance industry had come up. It was proposed as a novel method by which the agents could attract public attention because at that time a number of groups were holding demonstrations for various reasons. The groups using demonstrations, were typically regarded as radical in nature, in contrast to the conservative image usually associated with a group such as the insurance industry. It was felt that this would work to the advantage of the agents because it would indicate that they were sufficiently concerned about the situation to utilize techniques they might ordinarily disapprove of.

When Howard Pawley tabled the "Report of the Automobile Insurance Committee" the need to respond was strongly felt.

The first action by the insurance industry was a demonstration organized exclusively by insurance agents on Friday, April 24th.

About seventy-five Winnipeg agents and agency employees assembled in protest in front of the Centennial Concert Hall where Premier Schreyer was reading a selection of Abraham Lincoln's Freedom Speeches. George Tatlock, who organized the demonstration said that, "While Schreyer is talking about freedom inside, he's destroying the freedom to choose who you can buy your insurance from."⁷³

Pickets carried signs declaring such things as: Kangaroo

Court Decided Auto Insurance; Call Schreyer when you have An Accident; NDP Destroys 4,287 Jobs; Ed the Red; Lincoln Freed Slaves - Schreyer Destroys Freedom. In addition the demonstrators passed out leaflets declaring that the government was destroying freedom and that "your job could be next."

A large rally was held on the Legislative grounds in April 29, 1970. The purpose, or objective of the rally as it was seen by George Tatlock, was, "to bring public attention to the legislation and the dictatorial manner in which it was to be implemented without the industry getting a fair hearing."⁷⁴

After the decision to go ahead with a rally was made by the agent-company committee about the first of April, most of the work of organizing it was done by Manitoba insurance agents. They were able to call upon people from the insurance companies and the Insurance Bureau of Canada of assistance and advice when required. They also had access to meeting space at Canadian Indemnity Ltd.⁷⁵

On Monday, April 27, 1970 the Winnipeg papers carried ads sponsored by the Insurance Agents Association of Canada which said, in summary, that Manitoba was built by free enterprise but now peoples' (insurance agents and employees) futures and jobs were threatened; Could a government program help the economy?; Who would be next and who would leave the province?; Did people want a free enterprise economy?; There was an invitation to attend a Rally on Wednesday, April 29th. Prior to the rally, meetings were held with representatives of the Winnipeg Chamber of Commerce to obtain its support for the rally. The Chamber subsequently sent the following letter to all of its members.

April 28, 1970

TO ALL MEMBERS

THE WINNIPEG CHAMBER OF COMMERCEDo you REALLY believe in free competitive enterprise?

Following a discussion at this morning's meeting of the Chamber Council, I was asked to write to you as follows:

To protest the intrusion of a governmental monopoly into a field that is and can be adequately served by competitive enterprise, a mass protest rally has been organized by the Insurance Agents Association and will be held on the Legislative Grounds on WEDNESDAY, APRIL 29, 1970 at 1:00 p.m.

Following the presentation of the formal protest to Premier Schreyer, the rally will parade via Memorial Boulevard and Portage Avenue to Main Street, where it will disperse.

If you feel strongly about the threat of advancing socialism you are invited to participate by attending and if you can see your way clear, by extending the lunch hour and encouraging your staff to participate.

Yours sincerely,

DAVID ROTHSTEIN
President

About 8:30 a.m. on the day of the rally George Tatlock telephoned Jim Harbun to ask him to speak to the rally regarding his situation.

The rally, held at 1:00 p.m. attracted a large number of people. Estimates of attendance vary from 3,000 to 15,000 depending upon the source, but it is likely that there were 7,000 to 10,000 people in attendance. Most of the people attending had some connection with the insurance industry in Manitoba.

People attending the rally carried signs similar to those of the previous Friday. They heard speeches from Herb Lawrence the

Mayor of Wawanesa; Sylvan Leipsic, Vice-president, Insurance of Aronovitch and Leipsic; Jim Harbun, who in April 1969 had invested \$70,000 to buy a Winnipeg insurance agency; and George Tatlock of the I.A.A.M. A letter of protest from the I.A.A.M. was presented to Mr. Schreyer. Although he was booed Premier Schreyer gave a short speech in which he indicated that it would be possible to save fifteen to twenty percent by a government program as opposed to a private one.

Mr. Pawley attempted to give a prepared address but was booed down.

The crowd then called for Walter Weir, Leader of the Opposition, who came forward to cheers. He challenged the Premier to table legislation that day. The throng then marched north down Memorial Boulevard to Portage Avenue and up Portage Avenue to Main Street before dispersing.

Reaction to the protest rally by Premier Schreyer in the Legislature's question period that day was that the "auto insurance bill will not be influenced in principle by a public demonstration against the bill's proposals."⁷⁶

Insurance industry spokesmen were not optimistic about the possibility that government representatives had changed their minds as a result of the protest rally. George Tatlock indicated he hoped the Premier and his administration would have second thoughts about government auto insurance, but said that the tenor of the Premier's address did not leave much room for hope.⁷⁷ Tom Turpin from Brandon, a vice-president of the I.A.A.M. thought that the government would not change its mind. He said, "it's politics and you can't rationalize that."⁷⁸

In retrospect, however, George Tatlock felt that the rally was effective in "drawing the attitude of the government to the attention of the public. It made them aware of the socialistic nature of the government. Prior to the rally it had been difficult getting the business community aroused against the government. After the rally, however, the campaign against Bill 56 was far more impassioned. After the rally there was a great deal more tension than there had been before it. It had the effect of activating people."⁷⁹

Howard Pawley indicated that, "the rally didn't have any effect on whether the government introduced a public insurance scheme or not and in fact may have strengthened the resolve of the Party to introduce one. It was, however, effective in that it highlighted the adverse effect which a public scheme could have upon agents."⁸⁰

At a cocktail party given after the rally by H.B. Vannan on behalf of the Insurance Bureau of Canada a discussion developed between Mr. Vannan and Jim Harbun over the position of the agents if they should happen to lose the fight on Bill 56. Mr. Harbun was asking what type of arrangement the industry had with the government, or what type of deal it looked like they could get if they happened to lose on Bill 56. Mr. Vannan asserted that the industry would not and should not stop at anything short of a complete victory and was not interested in talking about what could be done if the legislation was passed, let alone attempting to make any arrangements with the government at that point.⁸¹ Mr. Vannan was very definite about the need for a unified stance.

Activity in May and June 1970

Caucus Consideration

The NDP Caucus did not begin consideration of the automobile insurance issue until after the bill was drafted around the first of May 1970. Caucus was concerned about the prospects of an election and this was a pressure on them to back away from the issue. Members felt very strongly, however, that they had been elected to do certain things and that they couldn't back away from the issue because of industry pressure.⁸²

Caucus worked long hours in its consideration of Bill 56. Bud Boyce, Chairman of the NDP Caucus indicated that when they were reviewing the bill they caucused on "weekends until 1:00 and 2:00 in the morning."⁸³ People who made alterations to the bill included Premier Schreyer; Al Mackling, the Attorney General; Saul Cherniack, the Minister of Finance; and Howard Pawley.

Elected NDP members and party workers began a campaign around the first of May to "sell" the concept of public automobile insurance to the citizens of Manitoba. On May 2nd the Manitoba Federation of Labour and the NDP held a meeting at which they planned details of a public campaign.⁸⁴ On May 7th a meeting of a group of NDP party workers headed by Rev. Michael Hicks held an organizational meeting at the Marlborough hotel. The group subsequently conducted a door to door campaign distributing leaflets and other material supporting a public insurance scheme.

Second Reading - May 12, 1970

Introducing the legislation for Second Reading on May 12th,

Howard Pawley indicated to the Legislative Assembly that the two principal objectives of Bill 56, which had been distributed to members on May 6th, were:

1. To create a Crown corporation which will have responsibility for the administration of the automobile insurance plan; and
2. To enable the Crown corporation, with the approval of the Lieutenant-Governor-in-Council, to establish the specific terms, conditions, and announce of the insurance plan to be adopted the premium rate schedule, and many other of the administrative details of the program.⁸⁵

Although the details of the plan had not yet been worked out, Mr. Pawley did make some statements about premium rates and coverages. He indicated that two rating areas would be used, one comprising Winnipeg and the northern part of the province and the other the balance of the province.

Respecting coverage, he stated that the government was firmly committed to:

- (a) The recommended limit of \$50,000 for third party liability.
- (b) Compulsory collision insurance with a deductible somewhere between \$100.00 and \$200.00.
- (c) Compulsory accident benefits, but the amount of the weekly indemnity for loss of income, recommended to be fifty dollars per week for up to two years, was to be subject to further review.

The Crown corporation to be incorporated by the bill would be responsible for conducting further cost studies in all the undecided matters of premiums and benefits.

Mr. Pawley indicated that the advantages of the plan to Manitobans would be:

1. A basic plan designed to return approximately eighty-five percent of the premiums collected from motorists in claim benefits. This would represent a savings of one-half of the administrative costs presently incurred under private plans.

2. Earnings from the investments of the fund of the basic plan will be used to reduce premiums or to increase benefits.
3. Uniformity in the coverages and the administration for all Manitoba motorists by the creation of one public agency, an agency which will be sensitive and responsive to public needs.
4. A compulsory auto insurance plan comparable to a public utility utility.
5. The establishment of claims service centres throughout the province to facilitate economical and efficient claims adjusting service.
6. The reasonable limit, (of) a basic protection for all Manitobans without interfering with the rights of motorists to obtain additional or supplementary coverage. In addition I point out that the bill also allows the Crown corporation to provide supplementary competitive insurance coverage.⁸⁶

In his reply to Mr. Pawley's speech, Walter Weir indicated that the bill contained provisions such that:

Firstly, it gives the Cabinet dictatorial power to make laws seriously affecting the lives of all those of us who drive or walk on the public highways, by means of Cabinet decisions arrived at in secret, without giving reasons and without submitting them to the examination of elected representatives of the people, for their scrutiny and the scrutiny of the people before they become law. Secondly, it authorizes the NDP cabinet to amend or revoke such regulations without notice, explanation or justification. Thirdly, it authorizes the corporation itself to pry into the privacy of citizens involved in accidents whether it be medical records, hospital records, policy files or the tapping of private telephones, and to make such information as it may see fit available to other parties. Fourthly, Mr. Speaker, it booby traps and mines the access of the insured to the benefits of the bill to such an extent that he cannot claim them as right but only as beggar. Fifthly, it fails to specify the particulars that must be submitted annually to the Legislature in the annual reports of financial statements of the corporation.⁸⁷

On the next day, May 13th, Larry Desjardins indicated that he would support the plan if provision were made for compensation of agents who were harmed by it. He did not intend to commit himself on the plan until he saw the specific details of a compensation plan.

In the debate on second reading NDP members proclaimed that a

government monopoly would be more efficient and that public auto insurance was another example of a filled election promise. Opposition Progressive Conservative and Liberal members were concerned about what level of service would be offered, about the cost of insurance, about compensation for agents, about whether the program would allow competition from private companies or not. All opposition members spoke during the debate on second reading of the bill to delay proceedings as much as possible. Then, on Monday, June 15th, Warner Jorgenson (PC-Morris), to the chagrin of the government moved to "hoist" the bill, or have second reading in six months, rather than at present. This opened up the opportunity for all opposition members to speak on the amendment with the government's only option to avoid debate on the amendment to invoke closure. Sidney Green countered for the government the following day with a speed up motion, the effect of which was to increase the length of the daily sittings, provide for the Legislature to sit on Saturdays and eliminate private members' time.

Tuesday, June 16th, was featured by Walter Weir's introduction of an alternative auto insurance proposal. The plan, developed with the assistance of representatives of the I.B.C., called for retention of private ownership of the industry. It advocated compulsory third party liability and accident benefit coverage with collision insurance on the insureds' vehicle being voluntary. The first \$300.00 of damage in a vehicle-to-vehicle accident would be covered regardless of fault. The plan also suggested an automobile insurance rating review board to look at annual car insurance rates and proposed that a preferred rate be established for individual young drivers after a suggested period of good driving.

Reaction to Mr. Weir's proposal was soon forthcoming. Premier Schreyer called the scheme gimmicky. Saul Cherniack, Minister of Finance, said that Mr. Weir's speech was one of the strongest attacks on the existing auto insurance legislation he had heard and showed the need for change.

On Wednesday, June 24th, prior to the vote on Second Reading Premier Schreyer disclosed the details of a compensation plan for insurance agents displaced by the government plan. The Premier had been personally involved in outlining the details of the plan. Insurance agents would receive as compensation: first choice of government employment with the insurance corporation, cash compensation of eighty-five dollars per week for each year of experience to a maximum of \$2,210, they would be able to apply for licenses to sell license plates and government insurance at a rate of \$1.25 per customer. There would also be a board of adjudication to handle disputes. The plan was based upon the scheme established to compensate employees of companies affected by the Canadian U.S. Auto Pact agreements.

The compensation issue generated a great deal of heat within the NDP caucus. Premier Schreyer and Larry Desjardins were in favour of compensation of some sort, but some including Sidney Green, a former labour lawyer, and Russell Paulley, a former CNR employee were against it. The argument against was to the effect that if a company decided to close down a plant it wouldn't compensate the employees who had been put out of work, so why should the government worry about compensation in this case. Because of the apparent public support for agents, and the desire to obtain Mr. Desjardins' support an agent compensation plan was formulated.

Industry Actions in May and June
1970

There was much public interest and discussion on the issue of public automobile insurance after the rally. The I.A.A.M. hired a full time Executive Director, Mr. W.J. Wilding, a retired army major. They also established a steering committee to bring more agents into decisions and work on the automobile insurance issue. One reason for this was the desire and eagerness of some agents to participate to a greater extent in the decisions regarding the campaign. Another reason was the amount of work and time involved and for R.A.S. Cooper, the chairman of the Automobile Committee who was overburdened with work.⁸⁸ The structure of the I.A.A.M. Automobile Steering Committee at that time⁸⁹ included sub-committees for agency liaison, publicity, internal matters, research, planning and community involvement. The committee set up a communications system by which one agent would telephone a message to another who would subsequently contact a number of other agents who would each in turn contact another group of agents until all had been contacted. The committee met regularly and discussed the various moves to be taken on behalf of the Association.

Activities the Association was involved in or encouraged on the part of its members during the May and June 1970 period included:

- participation in open line programs
- public debates with government representatives
- meetings of agents with their local MLA's
- speeches opposing public automobile insurance
- talking to people about the issue
- encouraging people to write or telephone their MLA's

- advertising on radio and in newspapers
- bringing guest speakers into the province
- arranging for bumper stickers and buttons
- encouraging members and others to speak to the upcoming Public Utilities Committee hearings, and providing some guidelines concerning the nature of the expected hearings and topics which could be covered
- door to door canvasses in certain areas
- hiring legal counsel to assist them
- impressing upon everyone the nature of the situation a government take over of the industry would leave, e.g., when organizations such as Boy Scouts or War Amps attempted soliciting funds for charity they were often told that no donations could be made because the government was stealing the agents means of earning a livelihood. The same applied to purchases from car, T.V. and other dealers.

During this period the I.B.C. became much more involved in the campaign and in assisting the I.A.A.M. financially. They continued to have resource people available whom the agents could call upon for advice and assistance in technical and other matters.

The general approach utilized by the I.B.C. in the period subsequent to the rally was reflected in a letter from Gene O'Keefe of Public and Industrial Relations Ltd. to Harley Vannan, dated May 8, 1970. The memorandum gave Mr. O'Keefe's observations on the situation in Manitoba after having observed it for a week and suggested a course of future action. He said:

The Progressive Conservative push will be on the basis of free enterprise. How hard they push will be dependent upon the public reaction to their stand.

If the Conservatives fight hard, some form of central insurance office must be set up to aid them at moments notice. It would appear that this can best be done under the guise of an Information Office which has the appearance of supplying information only to the press, but in effect is supplying information to the opposition parties as well as the press.

The agents obviously prefer street fighting to political fighting. They will prefer to talk details of car insurance than political principles such as free enterprise versus car insurance. They must be kept under control.

If it comes to an election, the industry must pull into the woodwork, but offer support and manpower in a behind-the-scenes action.

If an election fails to form the industry must take steps to keep it as hot as possible. I don't know what for sure. Would suggest that a small group of insurance and public relations people be formed to keep abreast of what is happening and to plan for any alternative approaches to the problem.⁹⁰

Examples of the type of specific activity engaged in included such things as:

- Talking to and briefing the Progressive Conservative caucus and leader, Walter Weir. H.B. Vannan and Bob Warkentin worked with Mr. Weir to develop the alternative insurance scheme that formed the basis of the plan introduced by Walter Weir on June 16, 1970. Background material on this plan was prepared and distributed to company and agency personnel.
- Provision of financial support for the Insurance Agents Association of Manitoba for radio advertising.⁹¹
- Assistance was provided to the Insurance Agents Association of Manitoba in preparation of press releases. These were mainly handled by Wilf Chislett, whose firm Wilf Chislett and Associates acted for Public and Industrial Relations Ltd. in Winnipeg.
- Speeches to service, community, industry and other types of groups both inside and outside the province by Mr. Vannan.
- Maintaining contact with and providing information to representatives of the communications media and other interested persons through the public relations personnel retained by the I.B.C.
- Participation on radio hotlines and T.V. shows relevant to automobile insurance. Also pamphlets, speeches and newspaper items such as letters to the editor, were prepared as rebuttals to NDP statements.
- Continuing to meeting with representatives of the Insurance Agents Association of Manitoba.
- Representatives of the various insurance companies in their

day to day dealings with each other and with agents would often discuss the subject of the automobile insurance legislation. People would provide each other with encouragement and moral support to undertake activities.

A letter from David Chamberlain of Public and Industrial Relations, Ltd. to Ron Walker, Public Relations Chairman of I.B.C. on June 29, 1970 summarized the Public Relations activities of the Association during May and June of 1970.

The Public Utilities Committee
June 27-July 29, 1970

At one point it was felt that the best opportunity for the opposition to defeat the auto insurance bill would be at the committee stage. This was because it was anticipated that the bill would be sent to the Law Amendments Committee which was a committee of the whole house. The key was that the Speaker would relinquish his chair, and be replaced by the chairman of the Law Amendments Committee. Traditionally the Speaker would not then vote with the government. However, if he did not, one voting member was lost and the combined opposition had one more vote than the government. The notion was put forward on April 28th by Bud Sherman (PC-Fort Garry) that by going to the Law Amendments Committee the government was engineering its own defeat in order to force an election. "It was," Liberal house leader Gordon F. Johnston said, "a well known fact that over half the cabinet was urging the Premier to call an election on the auto insurance issue."

It was, however, announced on Wednesday, May 13th that Bill 56 would be considered by the Public Utilities Committee.

The Public Utilities Committee included chairman Larry Desjardins and twenty-five other members; thirteen NDP, eight

Conservatives, two Liberals, one Social Credit and one Independent.

Committee hearings began on Saturday, June 27, 1970 on the second floor of the Manitoba Legislative Building. On the morning of the first day of hearings representatives were heard from Mr. H.B. Vannan of the Insurance Bureau of Canada and Mr. W.J. Wilding, Executive Director of the Insurance Agents Association.

In introducing his remarks Mr. Vannan commented that:

It is in this particular context of P.B.C. that I would like now to suggest to you that the insurance industry is opposed to the making law of Bill 56. We do not feel that Bill 56 is a plan for insurance. Bill 56 is a license to steal which is being perpetuated on the people of Manitoba without full knowledge of exactly what it contains in its full implications.⁹⁴

Mr. Vannan continued and outlined the history of the industry's attempts to co-operate with the government to provide information for development of an insurance scheme. First, how the industry representatives had offered to supply information and personnel for a joint review of the industry with governmental personnel. Next, how the government, on its own, announced the formation of an Automobile Insurance Committee with a membership biased toward a public plan. The Committee, Mr. Vannan said, then heard briefs but would not participate in an exchange of information with the insurance industry. He was convinced that the Automobile Insurance Committee had made up its mind to recommend a Saskatchewan type plan. Mr. Vannan went on to urge that a public insurance plan, if instituted, should operate under the same rules and regulations as the private industry, e.g., standard accounting procedures should be utilized, they should be subject to all the same provincial and federal regulations that private companies had to operate with respect to.

In subsequent hearings of the Public Utilities Committee there were always representatives of the I.B.C. present to monitor proceedings.

By the end of the first week the committee had heard twenty-one briefs with 149 still to come. On a motion by Sidney Green it was decided to accept no more briefs.

A major witness, G.C. Trites, Managing Director of Wawanesa Mutual Insurance said that the board of directors of his company would probably opt for moving the head office of his company to Quebec if the legislation was passed.

A visit to Manitoba by Queen Elizabeth, Prince Phillip, Prince Charles and Princess Anne to participate in Manitoba Centennial celebrations halted all Legislative activity for a week allowing members to spend time in their own constituencies.

The Public Utilities Committee did not resume hearings until Wednesday, July 22nd. At this stage until Committee hearings concluded on July 29th at 11:00 p.m. most of the representatives were from private insurance agents. There was real hostility on the part of both sides involved.

At times tensions at the Committee hearings ran very high. On Saturday, July 25th interference from the public gallery was sufficient to cause Mr. Desjardins to have uniformed guards brought into the room to keep an eye on the gallery. At the same time Mr. Desjardins threatened to resign as chairman if proceedings could not be conducted with greater decorum. At one point three commissionaires were observed goose stepping down a corridor in jest.

Agents were extremely frustrated and upset because they felt

they were being deprived of their businesses unjustly and were powerless to do anything about it. The tremendous power a government had to take action when it decided it wanted to, was forcibly illustrated to the group, many of whom had no attractive options if they should lose their automobile insurance business.⁹⁵

The I.A.A.M. encouraged its members to present briefs to the hearings and provided guidelines on what topics might be covered, but did not attempt to direct certain people to talk about specific topics.⁹⁶ Agent's presentations to the Public Utilities Committee were often based upon compassionate appeals to the members of the Committee not to deprive the agents of their means of livelihood. Another common approach was an emphasis upon the advantages of a free enterprise approach to automobile insurance rather than a public ownership approach. The appeals were often addressed to Larry Desjardins, the Committee chairman as he held the power to defeat the bill in the Legislative Assembly.

The following excerpts from the Transcription of Hearing by Standing Committee on Public Utilities and Mines and Natural Resources are indicative of arguments based upon a compassionate appeal.

As I own my own business into which I have put all my money, my loss in capital investment would be as high as eighty percent.... Other personal losses which my family and I would suffer would be severe. I am buying a home, but with an eighty percent reduction in income, I could not complete the last payments nor could I pay the property taxes, as I have tied up all my capital in my business. The value of my estate will be practically nil. At the same time, my pension will be reduced to nothing. (Mr. W.T. Boote)⁹⁷

Like the majority of agents, the greatest portion of my portfolio is auto insurance, therefore, I stand to lose approximately seventy percent of my income. Due to financial

obligations created by my rapid expansion through agencies purchased, but with a loss of seventy percent of my income, government is forcing me into bankruptcy ...

Mr. Chairman, to say the least already my family know that this is true. My children are ages fourteen, eleven and five. Soon my oldest son will be looking for a college education, he will be turning to his Dad for advice and financial assistance. What will I be able to say to him? Sorry, son, the NDP government forced us out of business and we lost everything, including your college education.

Mr. Chairman, if you recommend the passage of this bill, Bill 56, in its present form without at least allowing for reasonable and fair financial compensation, that's exactly what you will be doing. (B. Crundwell)⁹⁸

* * * * *

Here I am at forty-eight -- an honest, hard working man -- forced to get down on my knees and divulge my personal and business problems to one and all -- because of a government who will not recognize the democratic right of free men to invest their lifetime savings in the business of their choice.

Why should I and the many like me not be paid fairly for a thriving business? One page 27 of the June 1, 1970 edition of the Canadian Underwriter, which is the insurance magazine of Canada, we find advertisements of agencies for sale in Canada. Those ads all indicate that two times the annual commissions is the going rate for purchasing an agency in the other provinces in Canada. This is the going rate -- this is what I paid for my agency and if the Government is successful in railroading this bill through, why should I not be paid on the same basis? I was an employee of an insurance company for sixteen years. As an employee I was treated fairly and paid fairly but I did not have any investment in the company I worked for. But comparing my present position with that of just over a year ago when I worked for a company is ludicrous. I am not an employee but a normal entrepreneur who has invested his life savings in a business. This Government is now stating that they will steal my investment, and I mean steal. I made this same remark in my speech to the mass demonstration of 10,000 people here on the legislative steps. All these people came out in the name of Free Enterprise. I made these remarks just before the Premier came out and offered us fair compensation -- where is this promise now?

Due to the stress and worry of this Government's Introduction of Bill 56 I personally have lost thirty pounds in the past year, and the duress and mental strain and anguish on my wife and family has been most severe. Surely this committee can come up with the proper recommendations to the effect that auto insurance is best left in the hands of the private insurance agents and make the

recommendation as to any improvements they may feel necessary. But as stated earlier, if this Government and this committee in their wisdom put this bill through, then surely they can compensate the agents on the basis that I stated earlier. (Jim Harbun)⁹⁹

Other briefs were based upon perceived advantages of a free enterprise system.

Gentlemen, it appears that the NDP government is definitely out to plunder the private insurance industry under the guise of saving the Manitoba public premiums, insurance premiums. (J. Tomko)¹⁰⁰

* * * * *

It is the belief of this agency that the Manitoba Government should not enter into the government-operated monopolistic automobile insurance scheme.

We believe that the people of Manitoba should have the freedom to choose their insurers and their insurance agents and their insurance coverage.

In summary we can only say this, that if the NDP government feels so strongly about this issue, that they should go to the people for a stronger mandate. We challenge them to do this, fully realizing that they will not. They know as well as we do, that the majority of Manitobans do not in fact want a dictatorial government running their affairs. (Gordon Martin)¹⁰¹

* * * * *

Many people believe socialism is the answer to all our problems. How can you then argue the unrest which is taking place in Russia or Czechoslovakia today. Is Socialism the answer? In our free world how many governments have socialized the automobile insurance industry? Our Premier often quotes us Sweden, but Sweden has not taken over the insurance industry. To me, Socialism may lead to a dictatorship and in due course to Communism. (John Welsh)¹⁰²

* * * * *

Some of the representations against the insurance bill by private agents were very outspoken, if not violent. One agent said that what the government was doing to insurance agents was analogous to Nazis exterminating Jews. Among other types of representations was

one made by S. I. Schwartz, a lawyer representing the Manitoba Bar Association who maintained that any regulations made under the bill may be ultra vires if it passed. The committee also heard a salesman (noninsurance) speak in favour of the bill and tell of troubles he had with two different agents in getting claims settled.

The Committee sat late at night to hear all submissions and return the bill to the Legislature as rapidly as possible. The NDP members of the Committee in general regarded the hearings as something it was necessary to go through but they were not impressed with the agents arguments that the government not proceed with Bill 56. In particular, the argument that a free enterprise system was better than a socialist system was not impressive.¹⁰³ The emphasis upon a need for improved agent compensation probably contributed to the existing feeling that improved compensation for the agents was required. In general, however, the briefs presented to the Committee were perceived by the government as very poor.

The actions of the I.A.A.M. during consideration of Bill 56 by the Public Utilities Committee were directed toward only one objective: defeat of the bill. As indicated previously no attempt was made to arrange a compromise. The attitude was that they "just wanted the bill defeated" and the public hearing was viewed as the court of last resort.

When the committee voted thirteen to seven on July 29th to report the Bill back to the Legislature it was after sitting through seventy hours of hearings and three hours of clause by clause study. The committee had heard 116 of the 170 listed submissions.

Agents Role in Amendments -
Backstage Activities

After announcement of a compensation plan on June 24th there were still many agents trying to persuade Mr. Desjardins and the government that the compensation plan offered was inadequate. The combination of political concern about the issue, and personal concern about the situation which agents could find themselves in, contributed to a decision to undertake further investigation. Mr. Desjardins met with agents on various occasions.

One of the problems in the controversy about agents and how they would be affected by the proposed government plan was that there was so little data available on agents. For example, people were unsure of how many agents there were, what the size of agencies was, and what proportion of agents' income was derived from automobile insurance. The Automobile Insurance Committee had not been able to find the information and the Insurance Agents Association of Manitoba did not have it.

In early July, Ken Goldstein, Executive Assistant to the Premier, became involved in the problem. One of the first things he did was to contact the Manitoba Superintendent of Insurance, F.A. Swain and arrange to obtain data on insurance agents in the province from the license applications all agents submitted.

Mr. Goldstein, with the late Francis Eady, another of the Premier's assistants met a number of insurance agents and heard their submissions. In short, they made an attempt to inform themselves regarding what some of the characteristics of the insurance agency business were.

At one point in July, during the Public Utilities Committee hearings, Mr. Desjardins suggested at a luncheon meeting with I.A.A.M. members that he could, on his own initiative, talk to the Premier about agent compensation or arrange a meeting for the agents with Mr. Schreyer.

In a July 8th meeting of the Auto Steering Committee of the Insurance Agents Association of Manitoba a motion introduced by Jim Harbun was passed which required that, "our legal counsel inform the government of the willingness of the Association to discuss Bill 56, subject to the approval of the opposition counsel."¹⁰⁴ The I.A.A.M. Automobile Steering Committee agreed to such a meeting on a close vote and wrote a letter to the Premier requesting a date for it.¹⁰⁵ The Premier's reply agreed to a meeting on July 21st.¹⁰⁶

After subsequent discussion with the joint agent-company committee, (in particular Mr. Vannan), and their legal advisor, Mr. A. Twaddle, the agents decided that they would not meet with the Premier. The advice from their lawyer was that if a meeting was held it would be necessary to be very cautious in what was said. Mr. Twaddle suggested that if a meeting did take place he should act as spokesman for the group. Mr. Vannan's argument was that Mr. Schreyer, by actions such as not following through on the joint industry-government review of insurance which he had talked about the previous summer, had demonstrated that he couldn't be trusted. So, with all the caution perceived necessary, and not being able to trust the government, and the adverse influence it could have on the chances of defeating the bill entirely, it was decided to cancel the appointment with the Premier.¹⁰⁷ Accordingly G.R. Tatlock phoned the Premier's secretary

to cancel the meeting on July 17, 1970. A letter ¹⁰⁸ confirming the cancellation was also sent.

After this turn of events Mr. Harbun concluded that his problem could not be solved through the I.A.A.M., and he telephoned Larry Desjardins for an appointment. When he went over to Mr. Desjardins' funeral home to pick him up Gordon Beard, (Independent MLA from Churchill) was also there so he went with both of them for lunch. Mr. Harbun indicated the effects which Bill 56 would have on his agency. Both Mr. Desjardins and Mr. Beard listened with interest and understanding.

Mr. Harbun also contacted the Premier's office and in a conversation with Mr. Eady, asked if he would be interested in seeing how Bill 56 could effect a general insurance agency. It was agreed that this material would be useful. Mr. Harbun had his chartered accountant work all night to prepare financial information on his firm. Mr. Harbun was only aware of one other person, Gordon McConnel, from the Kilkenny Group, who presented material of this nature. In general, Mr. Harbun observed that not many people gave sharp, factual presentations and that most were very general. ¹⁰⁹ Mr. Harbun presented the material and it was understood that Mr. Eady would discuss it with the Premier.

Shortly after their luncheon meeting, Mr. Desjardins phoned Mr. Harbun and said that he had been talking to the Premier about him, and that Mr. Schreyer would like to meet him. The meeting was arranged for 11:00 a.m. that Saturday. ¹¹⁰

In their conversation Premier Schreyer was primarily interested in the issue of compensation for agents. He wanted to

know why in principle Mr. Harbun felt that agents should be compensated. He drew an analogy with the Auto Pact scheme negotiated with the United States and how people who were affected were compensated. The Premier, from seeing the figures presented by Mr. Eady argued that only the down payment, or \$35,000 had been invested by Mr. Harbun and not the full \$70,000 amount of the purchase price. When Mr. Harbun raised the question of where to get the money for repaying the additional \$35,000 at a rate of \$1,100 per month and suggested an interim loan from the government, Premier Schreyer suggested that he should talk to the Manitoba Development Corporation.

Premier Schreyer suggested that Mr. Harbun would be a good person to come and work for the public auto insurance company as his background qualified him well for it. Mr. Harbun indicated that he was not thinking of a job with the public company at all.

After it was finished and Mr. Harbun had left Premier Schreyer and Mr. Desjardins, his impression was that it had been a very amicable meeting and that the Premier had been most co-operative.

Premier Schreyer was very concerned with the issue of agent compensation and/or the role for agents in the new system. At a barbeque given by Premier and Mrs. Schreyer for NDP government people Premier Schreyer, Ken Goldstein, and Arthur Gillman, Secretary of the Manitoba Economic Consultative Board, sat around the kitchen table and worked out the basic concept of a plan to allow an agent the option of either obtaining a license to distribute insurance for the public corporation or receiving compensation.

On July 24th Ken Goldstein drafted a memorandum to Premier Schreyer outlining a plan for involving agents with the public plan.

The essence of the proposal was that non-transferable licenses to sell public insurance would be granted to existing agents who had more than twenty-five percent of their business in auto insurance. They would be paid a ten percent commission on the insurance. Coverage was still to be available from the Motor Vehicles Branch for anyone who desired it. The plan was justified on the basis that it would reduce the requirements for transitional assistance benefits, that it would be feasible to have agents offer a time payment service if they wanted, and that it provided the option of issuing no more licenses and letting normal attrition take its course if the scheme didn't work out satisfactorily.¹¹¹

After discussion with the Premier, Mr. Goldstein drafted a revised proposal to him on July 28, 1970. This memo¹¹² was then sent to all cabinet ministers the next day, July 29, 1970, with minor modifications.

After cabinet consideration, the proposed plan was discussed by the NDP caucus on Friday, July 31st. As they were leaving the caucus meeting some members saw Larry Desjardins, entering the Legislative Building looking very troubled. Earlier in the week Mr. Desjardins had absented himself from the caucus until he made up his mind on the issue.

Larry Desjardins' Speech and Subsequent Amendments

Later on, Friday, July 31st, although debate on Bill 56 was not to be resumed until transcripts of the Committee hearings had been completed, Mr. Desjardins announced in a moving speech to the Legislature that he could not support the passage of the bill at that

time. He indicated that he felt there hadn't been a proper dialogue between the industry and the government. For example, he pointed out that it was a fact that the Automobile Insurance Committee was biased and didn't conduct proper hearings. At one point in his speech he said, "In the last few days I have seen the Legislative system at its worst. Two opposing groups bitterly facing each other with their minds made up, going through a futile exercise and having the gall to do so in the name of democracy." He told the government to meet with the insurance industry and "clear the air," and after closer study the government could re-introduce the legislation and he could still support it.¹¹³

The effect of the speech was to throw the whole situation into turmoil. An agent, who had been virtually living in the Legislative Building went home and said to his wife, "We won." The people of Wawanesa reacted with shouts of joy and dancing in the streets.¹¹⁴

The NDP caucus, which had assembled immediately after Mr. Desjardins' speech and adjournment of the Legislature at 5:30 p.m., was also in turmoil.

As he entered the caucus room Premier Schreyer commented to reporters, "I have maintained all along that this (Bill 56) was a major policy position of the government, and that implementation of the public auto insurance was a 'sine qua non' - in other words ... if we were prevented from implementing it, it would be tantamount to a want of confidence in the government."

Asked whether he felt the bill needed further examination, Mr. Schreyer replied: "as to the question of transitional assistance, and this is important, yes ... however, there is not reason to re-examine

and re-evaluate the bill itself, this is what we have been doing for the past year, for ten years in fact."¹¹⁵

The caucus meeting was confused. The MLA's were excited and a large number of alternative courses of action were suggested; including, dropping the public insurance scheme, calling an immediate election and making only certain components of the coverage (such as accident benefits) compulsory.

Ken Goldstein telephoned Premier Schreyer at 10:00 p.m. that evening. His advice was that he had interpreted Mr. Desjardins' speech as indicating that he (Desjardins) felt that the plan did not justify the anticipated hardships that the agents would have to bear. He felt that Mr. Desjardins had left the door open to supporting the government on the issue. He suggested to the Premier that he should move quickly on the issue, the advice being predicated in part on the belief that in a crisis situation it is always necessary to seize the initiative.¹¹⁶

At 10:30 p.m. or 11:00 p.m., that night, Mr. Goldstein telephoned Larry Desjardins and suggested a meeting with the Premier. Premier Schreyer subsequently did meet on more than one occasion with Mr. Desjardins and Gordon Beard, Independent MLA from Churchill, who was indicating that he might vote with the government on the bill.

The next day, Saturday, August 1, 1970, aboard the Lake Winnipeg cruise ship Lord Selkirk, where he was hosting the Canadian Premier's Conference, Premier Schreyer revealed that his government would introduce amendments dealing with the delivery of automobile insurance.

The following Monday, Ken Goldstein prepared a draft of a

major policy speech on automobile insurance to be delivered by Premier Schreyer that Wednesday, August 5th. Premier Schreyer did not see the draft of the speech until that Wednesday morning when he read it and made changes and additions. The last portions of it were still being re-typed when he began his speech in the Legislative Assembly.

His address indicated that the government intended to introduce provisions to allow insurance agents to handle public automobile insurance. He also indicated that the transitional assistance benefits would be improved somewhat, and that agents would be eligible to receive guaranteed loans at low interest rates to re-establish other businesses if they desired.

Excerpts from Premier Schreyer's speech follow:

So we have come, Mr. Speaker, to the second question I posed at the beginning of this address: What is the best delivery system for public auto insurance?

In considering all of the alternatives placed before us for assisting agents, or for involving agents, two things would have been very helpful. The first is some exact idea of the dimensions of the problem - or, in other words, some exact idea of how many agents are involved at what levels of income in auto insurance in Manitoba today.

The second helpful thing would have been the co-operation of the Insurance Agents Association of Manitoba in giving us such figures and in proposing realistic alternatives. This they have refused to do.

When I appeared before the agents' demonstration in front of this building some months ago, I told them that the question of the agents was separate from the question of the setting up of a Crown corporation. I invited them to come forward with proposals. They did not do so, although they were quick to criticize our ideas nevertheless.

Then, on July 10th, I received a letter from George Tatlock, president of the Insurance Agents Association of Manitoba, suggesting a meeting to discuss Bill 56. I readily accepted; a date was set. But Mr. Tatlock just phoned and then wrote cancelling the meeting. So we were unable to discuss any alternatives with the group which claims to represent the insurance

agents in this province. I am prepared to table copies of this correspondence so that the members and public can examine it if they wish.

Fortunately, however, a number of insurance agents visited with me and my staff privately, and gave us a better insight into some of the problems, and some of the alternatives.

I should make it clear that these were agents who were opposed to Bill 56, but who were willing to separate ideology from a discussion of specific alternatives. I want to thank these agents at that time for their assistance and for their goodwill. They showed that a discussion of alternatives was possible without emotion and without exaggeration.¹¹⁷

On August 6th, George Tatlock rejected the amended plan. He did feel, however, that it was a slight improvement from before. The speech had the effect of changing the whole mood of the debate and recapturing the initiative for the government which had been lost following Mr. Desjardins' speech.

Debate on the bill over the next week was impassioned. The Friday, August 7th, session of the Legislature adjourned early without considering Bill 56. The early adjournment was because of the high temperature outside and the atmosphere inside the Legislature where the Winnipeg Tribune of August 8th, said, "the scene was one of tension, anger, bared nerves and emotions, outbursts and political surprises."

On Monday, August 10th the Legislature moved into Committee of the Whole House for clause by clause consideration of the bill. The government announced its intention to introduce an amendment to establish an Advisory Board to be composed of government and insurance industry representatives to handle "such matters as deemed necessary" in the administration of public auto insurance.

Also on Monday, August 19th, Larry Desjardins and his

Legislative, seatmate Gordon Beard voted with the government to defeat opposition amendments. Later, outside the house they both said that they might continue to vote with the government until the end. Again on Tuesday, August 11th they voted with the government to turn back five attempted opposition amendments.

On Wednesday, August 12th, Howard Pawley, introduced amendments to the Committee of the Whole to establish a Transitional Assistance Board and an Advisory Board. On Wednesday evening Larry Desjardins announced his intention to support the government bill, thereby assuring its passage the following day, even if Gordon Beard decided to vote against it.

On Thursday, August 13, 1970 the insurance scheme, which would not come into effect before July 1, 1971, was passed in the Legislature by a vote of 29 to 27 with both Larry Desjardins and Gordon Beard voting in support of it. Later that day Mr. Desjardins announced his intention to resign his seat at the end of the session. The reason, he said, was because of the filthy calls and threats he had received after announcing on Wednesday, that he would support the bill. Gordon Beard said that people had been chasing Mr. Desjardins everywhere with telephone calls and Mrs. Desjardins had been so upset she had been in tears.

Mr. Pawley later referred to the day that Bill 56 passed third reading as the "happiest day in my life."

On August 12, 1970, the day before Bill 56 was passed H.B. Vannan announced that the I.B.C. had engaged John J. Robinette Q.C. to look into the Constitutionality of Bill 56 if it did pass. He indicated that the I.B.C. was prepared to take the matter to the

Supreme Court if they appeared to have a case at all.

The legal opinion, which indicated a basis for contesting the issue was not received until after November 1, 1971. It was decided to not proceed with legal action, because it was after the fact.

After the bill was passed, the I.A.A.M. was still very strongly opposed to it, even though they had been retained to distribute insurance.

An August 18, 1970 letter from George Tatlock to all members of the I.A.A.M. said:

To all members:

The long vigil is over. To those who spent so many hours at the Public Utilities Committee hearings, in the hallways of the Legislative Building and in the gallery--it was a heart breaking, soul destroying experience.

We lost--honourably. We lost to fanatic dogmatism and to personal selfish political motives. Under those circumstances the result could not be otherwise--for awhile democracy as we think of it, ceased to exist.

But that was yesterday--and yesterday is gone. What happened could well be described by the poet S.E. Kiser, when he wrote:

I am old, I am bent, I am cheated
Of all that Youth urged me to win;
But name me not with the defeated,
To-morrow again, I begin.

And tomorrow will come. Those who choose to live by the law of the jungle have only to look around at the bleached bones to appreciate their own precarious position. Always there is but one winner--mother nature.

Meanwhile, of course, there is reason to alarm, but not panic. There is reason to be alerted for June 30th, 1971, but of more importance is the need to assess the long term objective. Those who intend to be professionals in our business should not give thought to capitulation. Many things can happen in the next ten months: some planned, others by circumstance or chance.

It is our intention to convene a general membership meeting to discuss plans, future action and representations to companies. Hopefully this should take place within a month. To do this properly we must

summarize on paper what has taken place and what our next moves should embrace. For this purpose we need a frank appraisal of your opinions. We want everyone to write in (nothing elaborate) telling us what we omitted to do, what we did wrong, what we did right, what we should do again and what we should do next. We need ideas galore. Send them to the Association Office immediately.

Perhaps the long vigil really is not over--neither will it be in vain.

Sincerely,

President

Formulation of Regulations

After passage of Bill 56, R.D. Blackburn began to consider how the plan should be set up. This had not been possible earlier because of the uncertain political situation, and because formal actions had to await appointment of the corporation's board of directors.

In early September, Samson, Belair, Riddell, Stead and Co., a firm of management consultants, was retained to help organize and develop administrative procedures for the public auto insurance plan.

In the fall of 1970, the I.B.C. was concerned about the possibility of an NDP victory in the 1971 Ontario provincial election. An example of action taken was Mr. Vannan's criticism of statements made by Mr. Pawley in a speech given in Ontario on September 5, 1970. Mr. Vannan claimed that Mr. Pawley's statements of five million dollars per year saving were "NDP double-talk." In September 1970 Mr. Vannan spoke to the annual meeting of the Canadian Federation of Insurance Agents and Brokers and called for the government to follow all provincial and federal regulations that private insurance companies were subject to. He also advocated that the government

operation be self-sustaining, not subsidized from the provincial treasury, and that the government provide insurance equivalent to that offered by private industry.

On Tuesday, September 29, 1970 Premier Schreyer announced the membership of the board of directors of the Manitoba Public Insurance Corporation. They included: Howard Pawley who would head the board; Sylvan Leipsic, who had been appointed in part because of the impressive presentation he made to the Automobile Insurance Committee; Olafur P. Sigurdson, president of the Credit Union League of Manitoba; Alan S. Wiley, president and general manager of a Winnipeg automobile dealership; and Alan Chisvin, a chartered accountant. The board had the authority to appoint a general manager and employ administrative staff for the corporation.

On September 30, 1970 Mr. Vannan issued a statement critical of the selection of people to serve on the board of directors of the Manitoba Public Insurance Corporation. He indicated that there was no one on the board who had any experience in running an insurance business. Olaf Sigurdson was a farmer who probably didn't know much about insurance; Al Wiley was a car dealer, but had probably never underwritten a car; Mr. Chisvin was an accountant with no insurance experience; Sylvan Leipsic was just an agent and Howard Pawley "plainly" knew nothing about insurance. Mr. Vannan suggested a number of names of insurance industry people who could serve on the board. 118

On October 6th, R.D. Blackburn was appointed acting general manager of the corporation pending completion of the consultant's report on the administrative structure of the corporation.

On Friday, October 30, 1970 the membership of the Advisory Committee to the Manitoba Public Insurance Corporation was established. Its chairman was Murdock MacKay, a lawyer and NDP constituency vice-president. Insurance industry spokesman named to the committee included George Tatlock, past-president of the Insurance Agents Association of Manitoba and M.R. Ivey, prairie division manager of the Gore Mutual Insurance Company. A majority of the committee were sympathetic to the government. Mr. Vannan made a critical statement that evening saying that the committee had "very strong political overtones."¹¹⁹

Over the subsequent months Mr. Vannan as chief spokesman for the insurance industry continued to make critical statements about the nature of the government's plan for public automobile insurance. Because it was assumed that implementation of the bill would not be prevented, these efforts were directed toward keeping the government uncomfortable and "on their toes," to provide ammunition against public automobile insurance in other jurisdictions, and also to keep the Manitoba public aware of the industry's position and difficulties.

About the middle of October the Samson, Belair, Riddell, Stead and Co. report was completed and presented. The plan presented was based upon the Saskatchewan scheme. It estimated that the work required in setting up the corporation would take until mid-October 1971. This prompted an announcement by Premier Schreyer on Friday, October 30, 1970 that the plan would not come into effect until November 1, 1971. This would allow firms writing automobile insurance in Manitoba at that time to plan their policies accordingly.

The report also indicated that the corporation would offer

supplementary coverage. Originally it had been thought that because of the set up time required to offer supplementary coverage it should be introduced some time after the basic coverage became available. However, because of the uncertainty created by a number of insurance firms announcing intentions to not renew policies and withdraw from the province it was decided to proceed with supplementary coverage initially. Details of the report became available to the Winnipeg Tribune on October 30, 1970.

On November 3, 1970 Mr. Vannan made a statement criticizing the plan. He said that the recommendations were in many ways a "carbon copy of the Saskatchewan plan" and that it was a "condemnation of NDP planning." 120

When the Manitoba Public Insurance Corporation began advertising for positions on January 11, 1971, Mr. Blackburn indicated that he was disappointed there were not a greater number of highly qualified people from Manitoba applying for jobs with the corporation. 121 Factors contributing to the difficulty of staffing the corporation included an uncertainty about whether the plan would ever come into existence and a low pay scale. There was also testisance by Mr. Blackburn to advertising in the Canadian Underwriter because of feelings generated during the fight over Bill 50.

On January 14, 1971, Mr. Vannan issued a press release saying that Manitobans applying for top positions in the organization were in fact being overlooked no matter what their professional qualifications. 122

Because of the difficulties of hiring full-time staff to formulate details of the automobile insurance plan, and because the

legislative session and two by-elections were upcoming a need was perceived by the government to take action to get things moving. At this stage certain people in the government's administration were attributing some of the problems of getting the plan organized to Mr. Blackburn. The consequence was that in January 1971, a number of people were assigned on a temporary basis to assist in formulating details of the plan. This included items such as rates, rate classifications, agent commissions, transitional assistance, and drafting of the regulations. The key people drafted for the task included Ken Goldsteyn, Executive Assistant to the Premier; Arthur Gihman, Secretary of the Manitoba Economic Consultative Board; Arnold Miller, who subsequently became director of finance for the corporation; Bob Copstein, a lawyer who drafted the regulations; and Ray Realey of Samson, Belair, Riddell, Stead, and Co. In a little more than a month they formulated the basic rate structure of the plan. 123

On April 1, 1971 George Tatlock and M.R. Ivey, members of the Automobile Insurance Advisory Committee announced that they were withdrawing their oaths of secrecy. They said that confidential information prepared for the automobile insurance plan and considered by the Advisory Committee, was being released by cabinet ministers in the by-election campaigns underway at that time. Another fact about the Advisory Committee that met with their disapproval was that the matters the Committee considered were strictly controlled by the chairman, Murdoch MacKay. This prevented exploration of new ideas and turned the committee into a mechanism to simply approve plans developed by the people working for the corporation.

On Friday, April 2, 1971, certain rates of the insurance plan, as they had been developed to that point, were made available to Gerry Haslam of the CBC by Ken Goldstein. Mr. Haslam had been a supporter of public automobile insurance from the start. Mr. Haslam subsequently aired the rates in comparison to a selection of private company rates.

New Democratic Party candidates won both by-elections, giving the party a majority in the legislature.

The rate schedule for basic coverage was unveiled by Mr. Pawan on April 20, 1971.

At a press conference on April 30th Mr. Vannan argued that the government scheme would not really be cheaper than the private industry. He argued that at least sixty-four percent of Manitobans would pay as much or more under the proposed public scheme. After tabling of the rates the industry representatives held a press conference in the legislature building to compare their rates with government rates. The industry lost some credibility when a female reporter was quoted a rate for her car which was lower than the proposed public rate, but was also substantially lower than the rate she was then paying to a private company.

During the fall of 1970 and winter of 1971 the I.A.A.M. actions included supplying information to individuals and groups interested in the automobile insurance issue. However, most of the public criticism of the government was left to the Insurance Bureau of Canada at this stage. Mel Parsons replaced George Tatlock as president of the Association in October 1970. Specific actions undertaken included:

- (a) An attempt in November 1970 to get more media advertising against

the public insurance scheme, through the Insurance Bureau of Canada.

- (b) Sending copies of case histories regarding auto insurance accident benefits to NDP cabinet ministers.
- (c) Providing information for opposition M.L.A.'s.
- (d) Sending material on government actions to Mr. Desjardins and Mr. Beard indicating that conditions these two had set out in August 1970, had not been met.
- (e) Sending protest letter to the CBC regarding the TV show "Public Affairs" which on April 6, 1971, two days prior to two provincial by-elections aired a show which made public the premium rates leaked to Gerry Haslam of the CBC.

Other matters involved in formulation of regulations were the agent commission structure and transitional assistance. These were resolved during May and June of 1971. On Wednesday, June 9, 1971 commission rates of seven percent for the first year, six percent the second year and five percent thereafter for auto insurance were announced. Mr. Vannan indicated that it was like throwing crumbs to a starving man and if it were him he would refuse to accept the rates. 124

George Tatlock also made the suggestion was that rather than take such low commissions agents should consider opting out of the plan. 125 No significant move in this direction developed, however.

In May of 1971, Mr. Gordon Holland, secretary of the Management Committee of Cabinet, was appointed to assist Mr. Blackburn in the tasks required to get the plan operational by November 1, 1971.

On July 13th, J.O. Dutton, general manager of the Saskatchewan Government Insurance Office was appointed to succeed D. Blackburn as general manager of the Manitoba Automobile Insurance

Corporation. Mr. Dutton's one year appointment in Manitoba followed the defeat of the Saskatchewan Liberal government of Ross Thatcher by the NDP. The NDP government allowed him a leave of absence to go to Manitoba to provide what assistance he could. The NDP assumption of power in Saskatchewan also made possible the release of a number of other employees from Saskatchewan's public insurance corporation to provide assistance in Manitoba. These people were a key factor in getting the plan ready for introduction by November 1st. For example, a group from Saskatchewan was able to handle, on its own, establishment and operation of an "interim facility" to provide temporary coverage for motorists whose insurance companies would no longer provide coverage. The Saskatchewan people were also very helpful in setting up the computer systems for the scheme.

On September 10, 1971, a series of recommendations was presented to all Manitoba automobile insurance agents by the I.A.A.M.'s board of directors. The recommendations were:

- (1) THAT the minimum service fee for the first autopac period (November 1, 1971 to February 28, 1972) should be four dollars or fifteen percent Commission. By Autopac's own statements, we are considered professionals and as such this is a very reasonable minimum fee.
- (2) THAT agents of record for first period should automatically have retention of the business for the term February 28, 1972 to February 28, 1973.
- (3) THAT agents should be assured by Government that they will be servicing Autopac at a reasonable commission rate, of not less than ten percent in future years.
- (4) If we fail to achieve the objectives above, then for Public Service, economic and sound business reasons agents shall opt out of Autopac immediately and accept Transitional Assistance.

These same recommendations were presented in a brief to the cabinet on September 21, 1971.

The insurance agents in Manitoba did not in the final analysis give support to the notion of a mass opting out of the system. One of the reasons advanced by R.A.S. Cooper for the decision to not opt out was that agents, in general felt they had a public responsibility to provide service to motorists.

Employees of the corporation were able to complete the essentials on time for a November 1st opening. Although many operational details remained to be worked out they were open for business.

Subsequent Developments

In 1972, its first year of operation, the Manitoba Public Insurance Corporation made a slight profit. However, in 1973 and 1974 significant deficits in the ten million dollar range occurred. One development was a tightening of traffic regulations to attempt to cut down on accidents. Another development was imposition of higher surcharges for younger drivers and provision to increase premiums for drivers responsible for accidents. In addition, the government introduced legislation in 1974 to enable the Manitoba Public Insurance Corporation to enter the fire insurance business.

Footnotes

- ¹ Interview with Mr. Howard Pawley, July 1973.
- ² Winnipeg Tribune, February 24, 1971.
- ³ Records of the Insurance Agents Association of Manitoba.
- ⁴ These statistics were compiled from records submitted to the Manitoba Superintendent of Insurance by insurance agents. They were compiled at Mr. Schreyer's request to obtain an accurate profile of insurance agents in Manitoba.
- ⁵ "Insurance Bulletin," April 1971, published by the Insurance Bureau of Canada.
- ⁶ Ibid.
- ⁷ Winnipeg Tribune, February 24, 1971.
- ⁸ Interview with Jim Harbun, June 1973.
- ⁹ There was an additional \$25.00 fee to obtain a vehicle registration if insurance was not carried.
- ¹⁰ Excerpts from speech by Walter Weir to Legislative Assembly of Manitoba, from Debates and Proceedings, Legislative Assembly of Manitoba, June 16, 1970 (p. 2926). It is an interesting statement because insurance industry representatives assisted in its preparation.
- ¹¹ "The Report of the Manitoba Automobile Insurance Committee, 1970," Province of Manitoba, p. 24.
- ¹² Ibid., p. 18.
- ¹³ Ibid., p. 10.
- ¹⁴ Ibid., p. 12.
- ¹⁵ Debates and Proceedings of the Manitoba Legislature, May 19, 1970, p. 2073.
- ¹⁶ Walter Young, Anatomy of a Party (Toronto, Ontario: Toronto University Press, 1969), Appendix B.
- ¹⁷ Ibid., Appendix B.
- ¹⁸ Ibid., Chapter 2.
- ¹⁹ Interview with a company general manager.
- ²⁰ Submission to the Nova Scotia Royal Commission on Automobile Insurance, Insurance Bureau of Canada, Toronto, January 1972, p. 28.

- 21 Interview with R.A.S. Cooper, June 1973.
- 22 Manitoba NDP Campaign literature, 1969.
- 23 Winnipeg Free Press, June 10, 1969.
- 24 Minutes of the Insurance Agents Association of Manitoba, June 26, 1969.
- 25 Winnipeg Free Press, June 26, 1969.
- 26 Winnipeg Free Press, June 27, 1969.
- 27 Letter from D.A. Randall to Mr. Ed Schreyer, MLA, July 4, 1969.
- 28 Letter from S.M. Chérniack Q.C. to Allan E. Blakeney, August 1, 1969.
- 29 Winnipeg Free Press, July 16, 1969.
- 30 Interview with H.B. Vannan, August 1973.
- 31 Article by H.B. Vannan in January 1, 1970 issue of Canadian Underwriter.
- 32 Interview with Jim Harbun.
- 33 Interviews with Messrs. Cooper and Tatlock, June-July 1973.
- 34 Province of Manitoba, Legislature, Debates and Proceedings, Legislative Assembly of Manitoba, August 14, 1970.
- 35 Interview with an advisor to the government on the subject of automobile insurance, September 1973.
- 36 Province of Manitoba, Legislature, Transcript of the Public Hearings of the Manitoba Automobile Insurance Committee, December 5, 1969, Tape 9, Page 4.
- 37 The letter from Mr. Vannan to Premier Schreyer is included as Exhibit A.1 in Appendix A.
- 38 The letter from Mr. Pawley to Mr. Vannan is included as Exhibit A.2 in Appendix A.
- 39 Winnipeg Tribune, October 22, 1969.
- 40 Minutes of the Insurance Agents Association of Manitoba, October 21, 1969.
- 41 Winnipeg Free Press, October 21, 1969.

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MICROCOPY RESOLUTION TEST CHART
NATIONAL BUREAU OF STANDARDS - 1963-A

- 42 The letter from Mr. Pawley to Mr. Vannan is included as Exhibit A.3 in Appendix A.
- 43 The letter from Mr. Vannan to Mr. Pawley is included as Exhibit A.4 in Appendix A.
- 44 Interview with H. Pawley, July 1973.
- 45 Interview with H.B. Vannan, August 1973.
- 46 Ibid.
- 47 The letter from Mr. Vannan to Premier Schreyer is included as Exhibit A.5 in Appendix A.
- 48 The letter from Premier Schreyer to Mr. Vannan is included as Exhibit A.6 in Appendix A.
- 49 Winnipeg Free Press, November 4, 1969.
- 50 Discussion with Mrs. Manson, Secretary, Manitoba Public Insurance Corporation.
- 51 "Submission to the Manitoba Automobile Insurance Committee, November 1969," by the Insurance Agents Association of Manitoba, p. 6.
- 52 Ibid., p. 10.
- 53 Minutes of the Insurance Agents Association of Manitoba, November 21, 1969.
- 54 Minutes of the Insurance Agents Association of Manitoba, December 1, 1969.
- 55 Interview with Sylvan Leipsic, July 1973.
- 56 Interview with H.B. Vannan, August 1973.
- 57 Excerpts from Mr. Leipsic's Brief are included as Exhibit A.7 in Appendix A.
- 58 Interview with Howard Pawley, July 1973.
- 59 Mr. Schreyer's letter to Mr. Vannan is included as Exhibit A.6 in Appendix A.
- 60 Interview with George Tatlock, July 1973.
- 61 Summary of the December 29, 1969 meeting of the Automobile Insurance Committee from files provided by Howard Pawley.
- 62 Interview with Howard Pawley, July 1973.

63 Ibid.

64 It was reported in an unpublished paper by Joy Cooper, a University of Manitoba graduate student, that the Committee had difficulty in suppressing Mr. Randall's enthusiasm for a public insurance scheme in their efforts to give the Committee a non-partisan, non-governmental image.

65 Debates and Proceedings of the Manitoba Legislative Assembly, March 12, 1970, p. 5.

66 Interview with Howard Pawley, July 1973.

67 Winnipeg Free Press, March 13, 1970.

68 Op. cit., Debates and Proceedings, March 16, 1970.

69 Minutes of the Insurance Agents Association of Manitoba, January 6, 1970.

70 Ibid.

71 H.B. Vannan, article in the Canadian Underwriter, January 1, 1970.

72 Interview with H.B. Vannan, August 1973.

73 Winnipeg Free Press, April 25, 1970.

74 Interview with George Tatlock, July 1973.

75 Interview with H.B. Vannan, August 1973.

76 Winnipeg Free Press, April 29, 1970.

77 Ibid.

78 Ibid.

79 Interview with G.R. Tatlock, July 1973.

80 Interview with H. Pawley, July 1973.

81 Interview with Jim Harbun, June 1973.

82 Interview with Howard Pawley, July 1973.

83 Op. cit., Debates and Proceedings, May 15, 1970, p. 1992.

84 Winnipeg Free Press, May 3, 1970.

85 Op. cit., Debates and Proceedings, May 12, 1970, p. 1883.

- ⁸⁶ Ibid., p. 1884-85.
- ⁸⁷ Ibid., p. 1887.
- ⁸⁸ Interview with R.A.S. Cooper, June 1973.
- ⁸⁹ An organization chart is included as Exhibit A.8 in Appendix A.
- ⁹⁰ Letter from Gene O'Keefe of Public and Industrial Relations Ltd. to Harley Vannan, May 8, 1970.
- ⁹¹ A copy of a radio advertisement is included as Exhibit A.9 in Appendix A.
- ⁹² A copy of the letter is included as Exhibit A.10 in Appendix A.
- ⁹³ Op. cit., Debates and Proceedings, May 5, 1970.
- ⁹⁴ Province of Manitoba, Legislature, Transcription of Hearing by Standing Committee on Public Utilities and Mines and Natural Resources, June 27, 1970, p. 42.
- ⁹⁵ Interview with Jim Harbun, June 1973.
- ⁹⁶ A copy of the guidelines is included as Exhibit A.11 in Appendix A.
- ⁹⁷ Op. cit., Transcription, June 27, 1970, p. 3.
- ⁹⁸ Ibid., June 29, 1970, p. 113.
- ⁹⁹ Brief by James Harbun Sr. to the Standing Committee on Public Utilities and Mines and Natural Resources, Government of Manitoba, July 1973.
- ¹⁰⁰ Op. cit., Transcriptions, July 23, 1970.
- ¹⁰¹ Ibid., July 24, 1970.
- ¹⁰² Ibid., July 4, 1970, p. 188.
- ¹⁰³ Interview with Howard Pawley, July 1973.
- ¹⁰⁴ Minutes of the Automobile Insurance Steering Committee.
- ¹⁰⁵ The letter from George Tatlock to Premier Schreyer is included as Exhibit A.12 in Appendix A.
- ¹⁰⁶ The letter from Premier Schreyer to George Tatlock is included as Exhibit A.13 in Appendix A.

- 107 Interview with G.R. Tatlock, July 1973.
- 108 The letter from George Tatlock to Mr. Schreyer is included as Exhibit A.14 in Appendix A.
- 109 Interview with Jim Harbun, June 1973.
- 110 Although Mr. Harbun could not remember the exact date it is probable that it was July 25, 1970, after the week's recess for the Queen's visit.
- 111 Memo from K.J. Goldstein to Premier Schreyer, July 24, 1970.
- 112 The memo is included as Exhibit A.15 in Appendix A.
- 113 Winnipeg Free Press, August 1, 1970.
- 114 Ibid.
- 115 Winnipeg Tribune, August 1, 1970.
- 116 Interview with K.J. Goldstein, July 1973..
- 117 Winnipeg Tribune, August 6, 1970.
- 118 Winnipeg Free Press, September 30, 1970.
- 119 Ibid., November 2, 1970.
- 120 Ibid., November 3, 1970.
- 121 Ibid., January 14, 1971.
- 122 Ibid., January 16, 1971.
- 123 Interview with K.J. Goldstein, July 1973.
- 124 Winnipeg Free Press, June 10, 1971.
- 125 Mr. Tatlock's Letter is included as Exhibit A.16 in Appendix A.

Chapter 6

EVALUATION OF AND COMMENT UPON BUSINESS PARTICIPATION IN FORMULATION OF THE AUTOMOBILE INSURANCE ACT

Introduction

The previous chapter outlined the process by which The Automobile Insurance Act was formulated in Manitoba. The purpose of this chapter is to assess and comment upon business participation in the process.

Analysis of the case data indicated that passage of the automobile insurance legislation caused major system changes characterized by a shift of sales, profits, employment and power of decision from the private to the public sector of the economy which business managers were unable to prevent. This shift occurred for a variety of reasons, some under the control of business managers and some not. Factors not within the control of business managers included shifts of voter attitude and the platform of the NDP party. Reasons for the business failure which were more controllable included a lack of understanding by business managers of the process by which governmental policies are formulated and a failure to present the case for private enterprise either at all stages of the process or in a persuasive fashion. Reasons for failing to perform more effectively respecting the controllable factors included lack of experience in

dealing with government and formulation of business actions in an unplanned rather than a planned fashion.

Changes in the Environmental System

Initially, all automobile insurance coverage was provided by private industry and the public purchased it from the company of their choice through agents. The companies had the power to decide upon the types of policies they would offer and the types of risks they would accept. Total automobile insurance premiums collected were \$29.3 million in 1968, \$32.5 million in 1969 and \$35.6 million in 1970. In 1970 automobile insurance was written by 152 companies. The provincial government was responsible, through the Superintendent of Insurance, for regulation of companies in the province.

Subsequent to passage of the legislation the government collected \$37.9 million in automobile insurance premiums in its first twelve months of operation to October 31, 1972. The private companies collected \$1.9 million in supplementary insurance premiums. Decisions on the basic type of insurance offered, how it was offered and the cash flow generated from the business had passed from the hands of automobile insurance industry managers to Manitoba government representatives.

Insurance agents were still included, but their function was much more restricted, especially the independent agents. Rather than acting as independent businessmen they became an arm of the government insurance plan.

The public benefit in the long run was uncertain. What was apparent was that drivers under twenty-five or families with drivers

under twenty-five had premiums reduced. There were slightly more increases than decreases in premiums among drivers over twenty-five. In effect, one group in society subsidized another. Additionally, the public lost the freedom to choose their insurer and even to choose whether they wanted to carry insurance.

In summary, the insurance companies lost the right to provide basic automobile insurance coverage in Manitoba. The agents had a different, and more restricted role. The government assumed the functions the companies had previously been performing.

Entry into automobile insurance generated related government actions. In 1974 legislation was passed enabling the Manitoba Public Insurance Corporation to underwrite fire insurance. There has been more emphasis upon enforcement of traffic regulations since the government entered the automobile insurance field. There have also been changes in the nature of the government insurance plan since its introduction as when provisions were introduced to increase premiums for people with a record of accidents and to impose higher charges for young drivers.

Influence on System Changes by Business Managers

Managers in the insurance industry were not able to prevent the government take over of the automobile insurance industry. The effectiveness of managers' participation in the process of government policy formulation, in either preventing undesirable system changes or bringing about desirable changes, was therefore, regarded as negligible.

Although industry managers were not able to prevent the government take over, some of the details of how the public plan was

formulated were influenced. The best example of an effect on the final plan related to the role played by insurance agents. In the program outlined in the Report of the Committee on Automobile Insurance it was proposed that the government distribute automobile insurance directly to the public. This was later modified to include insurance agents.

There were certain individuals, and actions who/which had more of an influence in bringing about these changes than others. Actions by Mr. Leipsic and Mr. Harbun and the insurance agents rally were more influential than some others.

Before proceeding to a discussion of why some actions were and others were not effective, the nature of the process of government policy formulation and participation by business managers in the process is discussed. An understanding of the process and how business actions took its basically uncontrollable features into account was the key to understanding the relative effectiveness or ineffectiveness of business actions.

The Process of Government Policy Formation

Assessment of the government process by which the automobile insurance legislation was formulated involved two things. The first was determining whether the model of stages of the process of government policy formulation was descriptive of what actually did happen and the second was to determine whether the various stages of the process were best described in terms of the rational, organizational or political model of decision making.

It was found that the proposed stages model of the process of

government policy formulation did apply and that the political model of decision making was most useful in representing the decision process at most stages.

Stages in the Process of Government Policy Formation

The case supported the composite model of the stages of the process of government policy formulation. The model, a combination of von Petterfy's, Finer's, and Whalen's approaches encompassed the following stages:

1. Societal need
2. Recognition of need
3. Articulation of demand
4. Decision to proceed with legislation
5. Determination of nature of the legislation
6. Drafting of legislation
7. Legislative consideration
 - (a) First reading
 - (b) Second reading
 - (c) Committee
 - (d) Third reading
8. Formulation of regulations
9. Implementation of legislation

Outline of the Various Stages

A brief outline of the various stages of the process of government policy formulation as they applied to the legislation on public automobile insurance in Manitoba is included in this section.

• Societal Need (1920's and 1930's). The perceived need for public automobile insurance arose when automobiles became commonplace in Manitoba and people encountered problems with the private system of supplying insurance. Another factor contributing to need was the socialist doctrine, or policy, which called for centralization of financial institutions.

Recognition of Need (1930's - 1945). Recognition of need for public automobile insurance was illustrated in the Regina Manifesto of the CCF party in 1934. At that time, however, the reasoning for it was to centralize the financial institutions of the country under public ownership to finance a system of central planning. It was in the ensuing years between then and 1946 that this logic was modified and a need for public ownership came to be seen in terms of full coverage for drivers, lower prices and equity in premium rates and claims service.

Articulation of Demand (1934 - on). The Regina Manifesto of the CCF articulated a demand for public automobile insurance. Introduction of public automobile insurance in Saskatchewan gave impetus to demands in Manitoba. Public automobile insurance was an election plank item of the NDP in Manitoba from the early 1950's on.

Decision to Proceed with Legislation (June 26, 1969 - October 1969). The decision to proceed with initial steps leading to legislation was made the night the NDP were elected in Manitoba (June 26, 1969). In the next week Howard Pawley was assigned to be responsible for the legislation. During September and October of 1969 there was discussion in the NDP cabinet about how to proceed with introduction of legislation.

Determination of Nature of the Legislation (November 4, 1969 - January 30, 1970). During this period the Automobile Insurance Committee heard briefs and collected other information. After the public hearings were finished, Mr. Pawley and Mr. Blackburn met and decided what type of system to recommend. Their recommendations were formulated by the latter part of January 1970.

Drafting of Legislation (January 15, 1970 - May 1, 1970).

This was done by Myron Kuziak. It was a very involved and complicated task.

Legislative Consideration. First reading was April 22, 1970.

The government released the report of the automobile insurance committee at the same time.

Second reading was from May 12th to June 26th. The government introduced enabling legislation to allow it to set up a public plan with compulsory accident, collision and public liability coverage. Premier Schreyer with urging from Larry Desjardins was concerned about agent compensation.

Public Utilities Committee hearings ran from June 27th to July 29th. The hearings were regarded as a formality by the NDP. Premier Schreyer suggested some changes in the proposed plan to allow for some compensation of agents in late June.

Third reading debate ran from July 30th to August 13th. At this stage Larry Desjardin temporarily withdrew his support and Premier Schreyer announced amendments to include agents in the scheme. Debate in the Legislature was very tense.

Formulation of Regulations (August 1970 - October 1971). The formulation of regulations was initially directed by Ron Blackburn. A group appointed by cabinet became involved in early 1971 when it was feared that the scheme was falling too far behind schedule to allow introduction by the fall of 1971. This group completed the major part of designing the program by May 1971.

Comment on the Relevance of the
Model as a Description of the Data

For the most part the composite model of stages of the process of government policy formulation provided a useful and descriptively accurate framework of the sequence of events described in the case study. There were some features that required comment, however.

One point was that the three initial stages, "Societal Need," "Recognition of Need" and "Articulation of Demand," tended to overlap. This made it difficult to find distinctive break points between them. A factor which added to the difficulty of distinguishing between the three initial stages was that different individuals and/or groups went through them at different times. For example, the CCF party was articulating a demand for public automobile insurance in 1934. On the other hand the automobile insurance industry did not appear to recognize problems and began to articulate alternatives only after the NDP came to power in Manitoba.

Another feature of the initial stages was that problems, or, needs were perceived differently by different groups and/or individuals. For example, in the 1969 election campaign, Mr. Schreyer perceived the problem, or need, as one of excessively costly insurance coverage. On the basis of this he advocated a public automobile insurance scheme. Representatives of the automobile insurance industry, on the other hand, did not perceive any serious problem with the service they offered at that point in time. Any problems they did perceive were stated in terms of how they could prevent further government inroads into the industry.

Individual groups also perceived problems differently at

different points in time. An example of this was the change in the CCF position between 1934, when they supported public automobile insurance on the ideological basis of controlling all financial services centrally, to the 1940's where the need for public automobile insurance was stated in terms of providing an improved insurance service to the public.

One other point about laying out the stages in chronological order was the implication that one stage must invariably follow the previous one: This was generally found to be the case, however, there were instances where the process cycled back to a previous stage. Such was the case with the amendments introduced by Premier Schreyer which included insurance agents as part of the insurance delivery system. The amendments were formulated at the "Legislative Consideration - Committee" stage and were introduced at the "Legislative Committee - Third Reading" stage. They represented, in effect, a return of the process to the "Determination of Nature of Legislation" stage. It was also observed that bringing about this cycling back to a previous stage required considerable effort, in this case the insurance industry rally and pressure by Larry Desjardins.

As long as it was kept in mind that the process could cycle back to a previous stage, it was felt that this did not present any drawback to the use of the model as a description and/or predictor of what the various stages of the process of government policy formulation would be.

The Nature of the Process of Government Policy Formulation

This section was concerned with commenting upon the nature of

the decision process at various stages of the process of government policy formulation. Considerations such as the outcomes, the primary determiners of outcomes, the major factors influencing outcomes and the nature of the decision process at various stages were considered. As indicated, a political decision making model provided the greatest insight into the decision process at most stages.

Different Outcomes and Determiners of Outcomes at Different Stages

Consideration of the process of government policy formulation indicated that it could not be represented as one single decision. During the process there were outcomes at each of the different stages (Exhibit 6.1). The final outcome could have varied over a wide range depending upon what the outcome at any of the stages had been.

It was also noted that participants in the process changed from stage to stage (Exhibit 6.1). The primary determiners of outcomes and influencers were different from stage to stage. Primary determiners of outcomes were either politicians or civil servants. Influencers included a wide variety of politicians, bureaucrats, technocrats, business managers and other people.

For example, the original decision to support the concept of public automobile insurance in Manitoba was a decision of the CCF party in the province.

Premier Schreyer was the primary determiner in deciding to proceed with a public automobile insurance program after the party was elected. He was influenced by other NDP party members and by the party tradition of support for such a policy.

The decision on how to go about deciding upon the type of

Exhibit 6.1

Outcomes, Influences and Primary Determiners of Outcome at Each Stage of the Process of Formulation of the Automobile Insurance Act

Stage	Outcome of Stage	Primary Determiner(s) of Outcome	Major Influences
1. Societal Need	A latent need		
2. Recognition of Need	CCF first identified the needs - other groups didn't identify it until much later	CCF party members	
3. Articulation of Demands	CCF-NDP calling for public ownership of the industry; other groups (e.g., auto insurance industry) either attempted to refute them or ignored them	Leaders in each group deciding either implicitly or explicitly what their positions were to be	- other groups - public
4. Decision to Proceed with Legislation	The decision to go ahead and to proceed by means of a public government controlled committee	To go ahead - Schreyer Method to go - Cabinet	- party policy and workers - insurance industry - Ron Blackburn - party members - business community - Saskatchewan NDP

Exhibit 6.1 (continued)

Stage	Outcome of Stage	Primary Determiner(s) of Outcome	Major Influences
5. Determination of the Nature of the Legislation	The basic components of the government plan were outlined	Pawley and Blackburn	<ul style="list-style-type: none"> - public opinion - Cabinet colleagues - public - auto insurance agents - insurance companies (H.B. Vannan) - Saskatchewan Insurance Plan - public hearings - Dave Randall
6. Drafting of Legislation	Draft for 1st reading	Myron Kuziak	<ul style="list-style-type: none"> - Howard Pawley - Ron Blackburn
7. Legislative Consideration	<p>1st reading</p> <p>2nd reading</p> <p>Bill received approval in principle from the legislature and Premier Schreyer makes commitment for agent compensation</p>	Larry Desjardins	<ul style="list-style-type: none"> - Premier Schreyer - Cabinet - Auto Insurance Companies - MLA's - Opposition - Auto Insurance Agents - Public

Exhibit 6.1 (continued)

Stage	Outcome of Stage	Primary Determiner(s) of Outcome	Major Influences
Committee	Bill considered and reported back to legislature	Committee members	- party members
3rd reading Bill Reported and Amended	Amendments on including agents introduced and passed and then formal approval	Premier Schreyer to amend legislation	<ul style="list-style-type: none"> - Ken Goldstein - Arthur Gillman - Jim Harbun - Bob McDowell - I.A.A.M. - I.B.C. - Public - L. Desjardins
8. Regulations	Final working details of bill	(a) Blackburn (b) Committee (c) Dutton (d) Board of Directors	<ul style="list-style-type: none"> - industry - by-election - cabinet - corporation employees - Saskatchewan plan - agents - consultants - press

system to implement was made by the cabinet with influence from the automobile insurance industry, Ron Blackburn, civil servants, public opinion, NDP party members, the business community and the Saskatchewan NDP.

The primary determiners of the details of the proposed insurance plan were Howard Pawley and Ron Blackburn with influence from cabinet members, public opinion, briefs, Dave Randall, and the Saskatchewan insurance system. Myron Kuziak was responsible for drafting the legislation.

First reading of the bill was a formality, but passage at second reading depended upon the positive support of Larry Desjardins. In this sense, it was said that he was the primary determiner at second reading. Influencers included Premier Schreyer with his commitment to do something about agents, cabinet members, automobile insurance managers, agents, the public and opposition MLA's.

There was no individual primary determiner at the committee stage. The make-up of the committee, and NDP caucus support of the Bill, guaranteed its approval.

Premier Schreyer was the primary determiner of amendments to the legislation. He was influenced by his analysts, Ken Goldstein and Arthur Gillman; by individual agents, Jim Harbun and Bob McDowell; by Larry Desjardins; by public opinion; and by the agents rally.

Content and Procedure Decisions at Different Stages of the Process

Different types of major decisions were made during the process of government policy formulation (Exhibit 6.1). One type concerned how to tactically proceed from one stage of the process of government

policy formulation to another. The other type of decision related to the legislative outcome which would ultimately emerge from the process of policy formulation.

The "Decision to Proceed with Legislation" stage was really concerned with how to proceed from that point onward. Alternatives such as a public committee, including industry representatives on a committee, and introducing legislation with no public hearing were all considered before it was decided to proceed with a public committee which would hear briefs. The "Legislative Consideration" stage was involved, from the government point of view, with how to steer the legislation through the Legislative Assembly rather than with changes and improvements in the legislation. Parliamentary procedure became very important at this stage. Premier Schreyer called upon the procedural knowledge of Stanley Knowles a number of times.

The stage at which the majority of decisions concerning the content of legislation were made was the "Determination of Nature of Legislation Stage." It was at this stage that the major characteristics of the legislative outcome were outlined. Amendments introduced by Premier Schreyer at the "Legislative Consideration - Third Reading" stage also had an effect on the legislative content outcome by including agents in the scheme. The "Formulation of Regulations" stage had an effect on the details of the program such as rates and agent commissions.

The Decision Process at Various Stages of the Process of Government Policy Formulation

In the theoretical chapter three alternatives for the process

by which decisions were made in the government process were laid out. These were the rational, organizational and political processes. The rational process referred to decisions being made by formal assessment of alternatives according to a set of objectives previously agreed to by all concerned and selection of the alternative which ranked highest in terms of the objectives. The organizational process involving selection of a course of action because it had been undertaken previously, i.e., action taken would be similar to and based upon action taken in a similar previous situation. The political process implied that before an action was taken there were different people who advocated different courses of action and the primary determinant of the course of action ultimately undertaken was the relative power of the various people.

Examination of the automobile insurance legislation indicated that the political approach provided the greatest insight into most stages of the process of government policy formulation. Other than the "Societal Need" stage which arose from changing environmental conditions, all the other stages involved consciously determined outcomes. The organizational model provided great insight into some of the more structured and formal parts of the process including, "Drafting of Legislation," and "First Reading." However, all of the major stages of the process were best understood in terms of the political model. At the stages of "Recognition of Need," "Articulation of Demand," "Decision to Proceed," "Determination of Nature of Legislation," "Second and Third Readings," "Committee" and "Regulation" there were individuals involved with different impressions of the problem, and of what the outcome should be. There was also

some forum or mechanism for bargaining among the various individuals, and the determinant of outcome was power. In other words, the political model provided the greatest insight into the majority of the stages of the process of government policy formulation although the organizational model was appropriate at some of the stages (Exhibit 6.2).

Reasons for classifying the various stages of the process of policy formulation as above are outlined below.

Societal Need

The need or problem initially arose because of basic environmental conditions beyond the control of the groups involved. The growth of the automobile and of road systems created a need for automobile insurance. The evolving ideal of socialism provided the ideological and intellectual basis for advocacy of a centrally owned and operated insurance scheme. There was no actual decision outcome involved at this stage so it was not relevant to talk of a process of decision being either rational, organizational or political.

Recognition of Need

The output of this stage was an awareness by the various groups of a need, or problem, regarding the system by which automobile insurance was supplied.

One notable thing about this stages was, as mentioned previously, that various groups involved came to recognition of a potential need at different points in time. In addition, the various groups perceived the need or problem differently.

This situation where there were different groups with different

Exhibit 6.2

Basic Nature of the Decision Process at Various Stages

Stage	Rational	Organizational	Political
1. Societal Need			
2. Recognition of Need			*
3. Articulation of Demand			*
4. Decision to Proceed with Legislation			*
5. Determination of the Nature of Legislation			*
6. Drafting of Legislation		*	
7. Legislation Consideration			
1st reading		*	
2nd reading			*
Committee			*
3rd reading			*
8. Regulations	*	*	*

outlooks and perceptions of what the problem was, provided the basis for subsequent differences of opinion and disagreements. For these reasons it was regarded as illustrative of a political process.

Articulation of Demand

Decisions at this stage involved representatives of different groups deciding what their positions on issues were to be. Again, this was spread over a period of time. At the early stages the CCF (NDP) called for public ownership of automobile insurance. Other political groups, and industry representatives, articulated a position calling for rejection of the NDP argument, rather than coming up with suggestions for meaningful change to the existing auto insurance system. As time progressed, these positions tended to become more polarized and fixed with the NDP arguing for a government owned scheme and the industry either ignoring them or saying that the proposed system wouldn't work. Positions of individual groups were arrived at in a political fashion. By saying that the NDP would never get elected, industry representatives were able to satisfy themselves that the existing situation would remain unchanged.

The overall situation was one of different groups with different points of view attempting to convince each other and the public at large that their particular approach was the proper one. Although the individual groups may have arrived at their positions by an organizational process the overall situation was best understood as a political process.

The Decision to Proceed with Legislation

This stage involved two major decisions. First, was the decision that government action of some sort would definitely be initiated. Secondly, was the decision regarding how to proceed with formulation and implementation of legislation.

Regarding the decision on June 25, 1969 (election night) to initiate steps that could lead to a public insurance program, the primary determiner was the new Premier, Ed Schreyer. The straightforward translation of a long standing party platform plank into action was, from the NDP viewpoint, a logical step from advocacy to action. It was best understood in terms of the political model because the decision was not possible before the NDP had the power to form the government.

On the decision of how to proceed to initiate legislation, the cabinet contained advocates of different points of view. The Premier was inclined toward inclusion of business representatives on the review committee and toward having proceedings as public as possible. Others involved in the cabinet discussions, including Mr. Blackburn, were not in favour of including insurance industry representatives in any review. They felt that industry representatives could dominate the committee and that their position would be to retain the existing automobile insurance system.

The decision on how to undertake the review was best understood in terms of the political model. It was political because there was a difference of opinion on what to do, and there was discussion with people presenting and arguing for different positions.

Determination of Nature of Legislation

The output at this stage of the process was the "Report of the Automobile Insurance Committee," a statement of the type of legislation to be introduced.

The actual decisions on the nature of the proposed plan were made in private discussions between Mr. Pawley and Mr. Blackburn. When these discussions began, Mr. Blackburn, on the basis of his previous experience in Saskatchewan, was of the opinion that public insurance should be introduced but that it should be phased in over a period of years. As the discussions developed, however, Mr. Pawley introduced consideration of the political implications of not initially introducing a complete automobile insurance system. The decision was made initially to offer a complete program of automobile insurance to achieve greater savings for Manitobans. Influencers were cabinet members and public opinion. Mr. Pawley, the person with the greater positional power, had the most influence on the outcome of the stage.

The political model of the process of policy formulation was most useful in understanding how the outcome of this stage was arrived at.

Drafting of Legislation

This was a straight forward process involving transformation of the recommendations of the Automobile Insurance Committee into the actual bill. The organizational model of the formulation process was most useful in understanding it because much of the work was based upon what had previously been done in Saskatchewan.

Legislative Consideration

First Reading was a formality involving introduction of the bill. As a formality, it was best understood in terms of the organizational process.

Second Reading. The output of this stage of the process was approval in principle of the legislation.

The political model was most useful in understanding this stage. This was because there were a number of different people with different positions all attempting to convince the focal point, Mr. Desjardins, to vote in their favour. Another example of the political model providing insight to a decision was the decision by Mr. Schreyer to offer some form of agent compensation. It was political because it was based upon the need to retain Mr. Desjardins' support.

Committee Consideration. The outcome of this stage was acceptance of the legislation in essentially the same form that had received second reading. This stage was routine and had a predictable outcome because the committee was structured so that it had a majority of NDP members. The committee proceedings did, however, have an effect on subsequent stages because the people appearing did have some apparent influence on the chairman, Mr. Desjardins, who decided that he couldn't support the bill for third reading at that time because of the hostilities and feelings that existed between the government and the industry.

At the committee stage, there were foreground committee activities and background activities involving negotiations between different parties. Various groups were meeting with Mr. Desjardins; there was an attempt by Mr. Desjardins to arrange a meeting between

the Insurance Agents Association of Manitoba and the Premier which fell through because the I.A.A.M. withdrew from it; Ken Goldstein and Arthur Gillman undertook an analysis of the agents in Manitoba which led up to the inclusion of agents in the final system; and Jim Harbun met with Premier Schreyer and Mr. Desjardins.

The outcome of the foreground activity was acceptance of the bill by the committee. The political model was useful in understanding the outcome because it depended upon the power of having a majority of the committee members as NDP supporters. The background activity was also best understood in terms of the political model because various individuals were attempting to convince others that the course of action they desired was best. For instance, the meeting of Mr. Harbun with Premier Schreyer was an example of Mr. Harbun trying to convince the Premier that his particular objective of either having agents included in the system, or having an adequate compensation scheme, was important and should be incorporated in the legislation.

Amendments and Third Reading. The outcome of this stage was the legislation in its final amended form. The most significant event at this stage was the speech by Mr. Desjardins in which he indicated his intentions not to support the legislation. This set up a series of meetings between the Premier and Mr. Desjardins. The meetings resulted in a commitment by Mr. Schreyer to make amendments to the legislation and by Mr. Desjardins to support the amended bill. Mr. Desjardins' support was an outcome of this bargaining process. Although the government had contemplated the amendments previously, the action by Mr. Desjardins insured that agents would be included in the system.

The political process was most useful in understanding how the amendments which led to passage of the bill at third reading were formulated.

Formulation of Regulations

The outcome of this stage of the process was final statement of the regulations for The Automobile Insurance Act.

There was a certain amount of negotiation between various groups, especially over things such as the commission rates to be paid to agents. The rational model also provided some insight into problems such as determination of premium rates. The problem of premiums to be charged was addressed and resolved in relation to the political goals that had resulted in the passage of the legislation.

The organizational model was also appropriate in understanding some incidents at the regulation stage. This was particularly evident where employees from the Saskatchewan Government Insurance Office were employed and the results were very similar to the Saskatchewan plan. The Advisory Committee was also best understood in terms of the organizational model because the committee, to the consternation of the industry representatives on it, was constrained just to reviewing and approving regulations formulated by corporation employees. Approval of regulations was almost automatic because a majority of Committee members were sympathetic to the NDP position on automobile insurance.

Each of the three models of the policy formulation process were useful in understanding different developments at this stage.

Summary of Process

The political model of the decision process as outlined by Whalen, Lindblom and Allison provided greater ease in understanding the process of government policy formulation. The political model was most useful where the situation was new, complex and unstructured. The rational process had greatest application where the goals were clearly understood and agreed upon by all participants. The organizational process model was most useful where the problem situation was familiar to the participants.

Business Participation in the Process of Government Policy Formulation

This section indicates some of the reasons, within the control of business managers, for their failure to be influential.

The general finding was that managers in the automobile insurance industry did not base their actions upon a good understanding of the process of government policy formulation. Specifically, actions tended to be concentrated at the "Legislative Consideration" stage of the process, and many of the actions did not take into account the political nature of the process of governmental decision.

It was also found that business managers did not have previous experience in dealing with governments, and that most of their actions were unplanned rather than planned.

Point of Action by Industry Representatives

The point in the process of government policy formulation at which business managers directed actions was defined in terms of the stage in the process at which the action was taken and the type of

audience to which the action was directed.

It was found that industry managers directed their actions mainly at politicians and the majority of these actions were at the "Legislative Consideration" stage of the process. The largest number of actions was directed either at politicians directly, or at politicians through the public (Exhibit 6.3). An overwhelming number of actions were taken at the "Legislative Consideration" stage compared to other stages (Exhibit 6.4).

The actions recorded in Exhibits 6.3 and 6.4 were a compilation of actions from the cases. To the extent that the cases were incomplete the number does not represent the total situation. However, the observations do represent an accurate indication of the relative proportion of actions directed at different targets and of the relative proportion of actions at different stages of the process.

Another observation regarding the point of action was the absence of actions at the "Recognition of Need" and "Articulation of Demand" stages. This suggested that business managers did not get involved in an issue until after politicians had made it an issue for them. This was consistent with the idea that business action was a result of pressure exerted by others rather than a result of business managers taking the initiative. It also suggested the difficulty of working co-operatively with government to lay out long range plans for an industry.

The actions by different groups and individuals representing the insurance industry were, in general, similar to the overall pattern. However, there were some variations. The majority of actions by the I.B.C. were at the "Legislative Consideration" stage, and the

Exhibit 6.3

Summary of Actions by Insurance Industry Representatives

(a) Recorded Number of Actions Directed at Various Targets

	Total Recorded Actions	Bureaucrats	Politicians, Bureaucrats	Politicians	Agent or Industry Representative	Public Politicians	Legal
Insurance Bureau of Canada	54	2	1	16	13	21	1
Insurance Agents Association of Manitoba	57	1	2	17	8	29	1
Jim Harbun	77	2	1	5	2	1	
Sylvan Leipsic	8	1	1	1	2	25	1
Total	130	6	5	39	25	53	3

Source:

Appendix B, Exhibits B.1, B.2, and B.3.

Exhibit 6.4

Summary of Actions by Insurance
Industry Representatives

(b) Stages of Action

	Total Recorded Actions	(1) Recognition Need	(2) Recognition	(3) Articulation	(4) Decision to Proceed	(5) Determination of Legislation	(6) Drafting	Legislative Consideration, (1st, 2nd, 3rd) Committee Report	Regulations
Insurance Bureau of Canada	54	4		2	6	8		34	4
Insurance Agents Association of Manitoba	57			1	3	6		41	6
Jim Harbun	11				1	1		8	1
Sylvan Leipsic	8				1	2		4	1
Total	130	0	0	3	11	18	0	87	12

Source:

Appendix B, Exhibits B.1, B.2, and B.3.

major target of action was politicians, particularly NDP politicians.

Actions by the I.A.A.M. were very similar to the actions taken by the I.B.C. There was initially more of an attempt by the I.A.A.M. to work with the government at the "Determination of the Nature of Legislation" stage. This was primarily because of Gordon Root. Mr. Root's approach was, however, opposed by some directors of the I.A.A.M. and was subsequently curtailed. This resulted in an overwhelming concentration of actions at the "Legislative Consideration" stage. The major target for action was politicians either directly, or through the public. Little work was done with the bureaucracy.

Examination of actions by Jim Harbun and Sylvan Leipsic indicated that the main distinguishing feature about their actions outside of the detail they were able to transmit to members of the government was that they did not concentrate exclusively at the "Legislative Consideration" stage and their arguments were directed at and intended to appeal to bureaucrats as well as politicians. Their arguments had relevance to the bureaucrats and politicians directly concerned with formulating details of the policy. Mr. Leipsic had excellent knowledge of the position of the NDP cabinet with respect to automobile insurance at the "Decision to Proceed with Legislation" stage. When his interpretation of the NDP position did not win acceptance by the agents and company representatives, he decided to present his own brief to the committee. His brief resulted in his subsequent appointment to the board of directors of the Manitoba Public Insurance Corporation.

Mr. Harbun concentrated his efforts mainly at the "Legislative Consideration" stage of the process. His actions were different,

however, than those of the I.A.A.M. He dealt with the Premier and his assistants and presented some very detailed information which was useful to them in their consideration of the role of agents in the government insurance plan.

Types of Actions by Industry Managers

It was interesting to note that actions taken by managers followed from basic decisions about the goals of the participating groups and the strategy to take to achieve the goals. For example, in the early "Decision to Proceed with Legislation" stage, I.B.C. and I.A.A.M. representatives decided that the approach to follow was to attempt to work co-operatively with the government. When it was perceived that this approach was not going to keep the government out of the industry, a decision was made to change the basic approach to political pressure to force the government not to introduce a plan. Actions were subsequently aimed at achieving public support for the industry position which would put pressure on the NDP politicians. Changes in the basic strategy had a marked effect on the types of actions taken.

Mr. Harbun also had basic goals and strategies underlying his actions. In the beginning, he was not overly concerned that his insurance agency business would be effected so he did not participate too actively. When it became obvious that he stood to lose his entire business, he became very active through the I.A.A.M. His commitment to the I.A.A.M. resulted in him undertaking substantial committee work. However, when it became apparent that he was not going to achieve his objective of agent compensation through the I.A.A.M. he

initiated action on his own. He went to Mr. Desjardins, then to the Premier's executive assistant, and subsequently, to the Premier. In other words, when there was a change in the basic nature of his thinking, it affected the subsequent actions he took.

Persuasiveness of Action

This section assesses the persuasiveness of selected actions by business managers. An action was viewed as persuasive if a representative of a group toward which an action was directed indicated (either publicly or to the researcher) that he felt the action resulted either in the occurrence of results desirable to business managers, or in the prevention of results undesirable to business managers.

It was found that there was a mixture of persuasive and non-persuasive actions by business managers. It was observed that the central element of persuasive action was, as stated by Neustadt, to convince people making the decisions that what the business manager, "wants of them is what they ought to do for their own sake and on their own authority."¹

It was apparent that by simply stating their own views or by presenting a case strictly from an industry point of view while ignoring the desires, preferences and pressures of the government decision maker, business managers' actions were not in the least persuasive. It was also observed that persuading someone else was easier when the persuader possessed power resources.

These conclusions for the automobile insurance case were supported by a number of examples. Examples of persuasive actions.

were, (a) Sylvan Leipsic's brief to the Automobile Insurance Committee, (b) Jim Harbun's actions including his meetings with Mr. Desjardins and the Premier, (c) the insurance agent's rally and (d) Larry Desjardins' actions.

Examples of non-persuasive industry actions included, (a) the product and service offered to the public, (b) the August 1969 meeting of insurance industry representatives with the Premier, (c) the series of meetings between Mr. Vannan and Mr. Pawley in the fall of 1969 and, (d) presentations by industry representatives to the Public Utilities Committee of the Legislature.

Sylvan Leipsic's Brief to the Automobile Insurance Committee

The brief presented by Mr. Leipsic was regarded as persuasive. Mr. Pawley indicated the brief was the primary reason Mr. Leipsic was subsequently appointed to the board of directors of the Manitoba Public Insurance Corporation. The major reason this brief was persuasive and others were not was that it dealt, logically and in detail, with how to reduce the cost of automobile insurance, the problem perceived by the members of the Automobile Insurance Committee. Mr. Leipsic knew this was the primary concern of the government because he had talked to members of the cabinet with whom he was acquainted. Furthermore, the case was presented in a constructive, non-argumentative fashion, unlike some of the other presentations which really amounted to attacks on the Committee. The brief presented an alternative to the existing automobile insurance system and backed it with detailed evidence.

Jim Harbun's Actions

Mr. Harbun's objective was to obtain either compensation of some form or inclusion of agents in the insurance delivery system. His meetings with Mr. Desjardins, subsequently with the Premier's assistants and finally with the Premier himself, were instrumental in providing data to them about insurance agents.

Premier Schreyer indicated in his major speech on August 5, 1970 that the comments of some agents had been useful to the government to their decision to include agents in the system.

As with Mr. Leipsic's brief, Mr. Harbun's actions dealt with a specific problem which the government had at the time. The problem was that Larry Desjardins would not support the legislation without some provision in it for compensation of agents and he considered the plan initially suggested for agent compensation to be inadequate. Mr. Harbun presented his argument well at the time Premier Schreyer was searching for a way to introduce an agent compensation scheme acceptable to both his own party and to Mr. Desjardins.

The Insurance Agents Rally

This action was very persuasive in terms of the effect which it had in encouraging and focussing subsequent efforts to defeat the government by representatives of the insurance industry. It was not, however, persuasive in getting the NDP government not to proceed with automobile insurance legislation. Premier Schreyer used the rally as a forum to separate the issue of whether there should be a government insurance plan, from the issue of whether there should be compensation for agents. Subsequently the government remained firm on having a

public insurance plan but was willing to negotiate on agent compensation.

The rally was persuasive to representatives of the insurance industry and solidified their future efforts by providing a symbol of the unification of the industry. It gave them a feeling of hope, purpose and mutual reinforcement in working toward the goal of defeating the government's proposed plan.

The rally was not persuasive in altering the plans of the NDP government because the government was committed to the concept of public automobile insurance at that time and did not perceive a substantial threat from the rally. It was mentioned by Mr. Pawley that the rally, in fact, served to solidify the NDP caucus in its support of, and commitment to, passage of the legislation. He interpreted this as a natural reaction to any situation where a person or group was being attacked as the NDP government was.

Larry Desjardins' Actions

Although Larry Desjardins was a politician and not a business manager his actions were very persuasive in bringing about inclusion of agents in the automobile insurance system. Mr. Desjardins stated in May 1970 that he would not support the legislation if there was no provision for agent compensation. He reiterated this statement subsequently. The improved agent compensation scheme was the major item which influenced Mr. Desjardins to renew his support for the legislation after he made his speech withdrawing his support. It was in Premier Schreyer's best interest to do as Mr. Desjardins wanted regarding compensation because the legislation would not have passed

otherwise.

Product Offering

A non-persuasive action by the automobile insurance industry was failure to provide adequate service to the public. The complaints about costs, delay in payments and problems with the tort system were real and the industry was not able to cope with them by either providing satisfactory explanations or by modifying services to improve conditions. There were sufficient problems that many people felt the industry was not performing its function as well as possible. Many people were not convinced from their own point of view that the industry was doing as good a job as was possible.

August 1969 Meeting of Insurance Industry Representatives with Premier Schreyer and Mr. Pawley

The insurance industry representatives who attended the August 1969 meeting were not able to persuade the government that they should be included in a review of the industry. The idea of a joint industry-government committee was discussed, but the only commitment from the Premier was that the idea would be further considered by the government. Cabinet members, in subsequent discussions, were fearful that on a joint committee government representatives would be overwhelmed by industry representatives.

The apparent reason for the lack of success in persuading the government to establish a joint committee was that the industry representatives spoke to only two of the people involved in the decision about how to proceed. Furthermore, it was apparent that they did not even convince these two people to do more than give the idea

of a joint committee consideration along with other alternatives.

The action was not persuasive because it was not directed at all of the people involved in the decision, it was taken prior to, rather than at, the time the government was making its decision on how to proceed, and it did not convince the government representatives that it was in their best interest to have a joint committee.

The Meetings between Mr. Vannan and Mr. Pawley

Mr. Vannan's purpose in these meetings was to convince Mr. Pawley of his point of view so he could represent it in cabinet. His efforts were not persuasive because Mr. Pawley did not identify with Mr. Vannan nor did he accept the arguments of Mr. Vannan which favoured retaining a private automobile insurance industry.

The original meeting at the Manitoba Club, arranged by Mr. Vannan, made Mr. Pawley feel uncomfortable. Arguments based upon a "free enterprise is good" assumption that were presented to him during these meetings also made him feel uncomfortable.

Mr. Pawley saw the meetings as an opportunity to learn something about automobile insurance rather than to argue the relative merits of free enterprise versus state ownership. Mr. Pawley felt Mr. Vannan was presenting a self-interest point of view and that he was basically interested in preserving the automobile insurance industry as it was, not in achieving fundamental reform to lower the cost of automobile insurance.

Presentations to Public Utilities Committee

From the point of view of the agents, arguments favouring

retention of a private system or payment of agent compensation were logical and rational. However, they had little or no effect on the thinking of the NDP members of the committee who had already decided they would support the bill as it stood. The briefs, therefore, were not presented in a form persuasive to the NDP members on the committee. An element of persuasiveness of the committee hearings was their effect on the chairman, Larry Desjardins. He cited the animosities and bitterness at the committee stage as one of the reasons he subsequently decided to withdraw his support for the legislation.

Summary of Persuasiveness of Action

There were a mixture of persuasive and non-persuasive actions by industry representatives during the process. The latter outnumbered the former.

The primary characteristic of persuasive action was to convince the decision maker, in these instances government representatives, that it was in their best interest to undertake the action advocated by the industry. The best example of effective action was the activity of Larry Desjardins. However, Mr. Desjardins was lobbied by business managers.

Conditions which contributed to convincing a governmental decision maker that an advocated action was in his best interest included things such as detailed arguments presented in a logical fashion, arguments which were relevant to problems the government was facing at that particular time and backing the argument with power resources. To satisfy these conditions it was necessary to understand the process of governmental decision to know when, where and by whom

certain decisions (such as the make-up of the automobile insurance review committee) were being made, and presenting objective arguments which were factually and not ideologically based. It was necessary to present the government with alternatives, not attempt to pressure them. It was also necessary to provide sufficiently compelling reason for the favoured alternative (power resource) that the government would be inclined to select it. The type of reasons presented varied from data on agency operation which the government did not have such as that presented by Mr. Harbun, to Mr. Desjardins' threat to withhold voting support for the legislation.

The arguments that were not persuasive tended to put the government in a position where to do what the industry desired would have meant an unnecessary withdrawal from a very deep seated party commitment, possible an electoral defeat and certainly a feeling of personal defeat for abandoning a long-standing political commitment. Forced into the situation where the options left open by the industry were all unfavourable the government had no choice but to use all of its political expertise to pass the legislation.

Inputs to Business Actions

This section of the chapter briefly examines some of the inputs to business actions. Inputs examined were, firstly, the related experience of some of the business managers involved and, secondly, the process by which the actions of business managers were decided upon.

It was observed that the experience of automobile insurance

industry managers did not qualify them particularly well for participation in the process of government policy formulation, and that no significant degree of organized planning proceeded the actions taken by insurance industry managers.

Experience of Principal Business Participants

Examination of backgrounds of the principal business managers involved revealed that they had little previous experience related to participation in the process of government policy formulation.

Mr. Vannan was a very determined aggressive business leader. He had no previous experience in negotiating with a government on matters such as this. He indicated in an interview that when the NDP government was first elected the industry was feeling its way along and learning about the process as they went.

George Tatlock was an insurance agent who had been elected president of the Insurance Agents Association of Manitoba for a one year term. He had no previous experience in dealing with the government on a matter such as this.

Dick Cooper, who also had no previous experience in this type of situation indicated that the people who originally met with Premier Schreyer and Howard Pawley in August 1989 were, "like babes in the woods," as regards their knowledge of the process of government policy formulation and politicians.

Gordon Root, the consultant employed by the Insurance Agents Association of Manitoba, had experience in assisting the insurance agents association in British Columbia. However, his advice to adopt a position independent of the I.B.C. was rejected by the board of the

I.A.A.M.

At the Committee consideration stage there were briefs to the Public Utilities Committee, such as the one by Jim Harbun, in which Russell Paulley, not Howard Pawley, was addressed as the minister responsible for the legislation. This confusion was surprising in view of the fact that Mr. Harbun had been very concerned about the legislation and might have been expected to be very aware of all details relating to it.

Sylvan Leipsic did have contact with members of the NDP cabinet and was aware of their concern about the cost of automobile insurance and their intention to implement a public plan at the "Decision to Proceed with Legislation" and the "Determination of Nature of Legislation" stages. However, his advice to the I.A.A.M. to present a brief based upon how insurance costs could be reduced was rejected. The rejecting of a source of good information such as this indicated a lack of appreciation of the nature of the political process by the I.A.A.M.

Overall, the level of previous experience in dealing with government was low. This resulted in a low level of understanding of the process of government policy formulation and what to expect from government participants, particularly at the early stages.

Planned or Unplanned Business Actions

It was felt that the manner in which business actions were decided upon was an important input to the types of actions taken. This included consideration of the amount and type of information upon which decisions were based, the alternatives considered prior to

making a decision and, the primary factors influencing decisions made.

A selection of actions was examined to determine whether the processes leading up to deciding upon them was planned or unplanned. The definitions of planned and unplanned actions were developed in the theoretical section of the thesis. Briefly stated, unplanned actions were those decided upon by a decision process best represented as either organizational or political. Actions were classified as planned when they were best represented as a rational decision process.

Examination of the selected actions indicated that most of them were decided upon in an unplanned fashion. The actions examined are discussed below.

The Decision to Meet with Mr. Schreyer and Mr. Pawley

The decision to meet with Premier Schreyer and Mr. Pawley was a major one because it established the initial approach of the industry as one of attempted co-operation with the government. This decision was arrived at by a political process.

The process was considered to be political because there were a number of different people and organizations involved and there were expressions of different opinions about what approach to take. The ultimate result was a decision to attempt to work in a co-operative manner with the government.

The Decision by the I.B.C. to Adopt the Political Conflict Approach

The change from a co-operative to a conflict or political opposition approach represented a significant turning point in the industry approach. The decision was arrived at in a political

manner. There were people advocating continuation of a co-operative approach and there were people advocating the need to become more aggressive in the approach toward government. Mr. Vannan, a dominant figure in industry discussions, was of the opinion that it was necessary to adopt a more aggressive public stance. The critical letter of November 3, 1969 to Premier Schreyer and Mr. Pawley was initiated by Mr. Vannan as a reaction to the government's announcement of formation of the Automobile Insurance Committee. Subsequent to this, there was a meeting of representatives of the I.B.C. resulting in a letter to the Premier on November 12th requesting a meeting to clear up the difficulties in communication between the two parties. This suggested opposition to the approach taken by Mr. Vannan.

This process could only be described as a political one. Different people had different opinions, points of view, and amounts of power. Mr. Vannan was the person with the greatest amount of power because he controlled and could initiate the communications which went from the I.B.C. to the government and to the public.

I.A.A.M. Decision to Adopt a Political Conflict Approach

The decision to switch from a co-operative approach to one of generating a "ground swell" of political support for the agents position was a basic change in strategy for the I.A.A.M. It was formulated in a political manner. The minutes of the I.A.A.M. indicated that Mr. Tatlock favoured continuation of a co-operative approach with the government, while other representatives favoured initiation of a more aggressive approach designed to gain public support for the agents' position. In the discussion and debates that

ensued, the decision was made to switch from the co-operative to the aggressive political stance in opposition to the government. The decision was made by a political process with different people with different positions attempting to influence each other to adopt their point of view.

I.A.A.M. Brief to the Automobile Insurance Committee

The process by which this brief was formulated was a political one. Different people had different opinions and the ultimate outcome was a result of discussion or bargaining. The major issue in formulating the brief was whether or not the agents should deal independently with the government or maintain a united front with the insurance companies. Gordon Root, the I.A.A.M. consultant strongly favoured an "agent-only" approach. Other people, including R.A.S. Cooper, were extremely opposed to this approach. At one point, Mr. Cooper who was the chairman of the automobile insurance committee of the I.A.A.M. resigned after the directors of the I.A.A.M. voted to accept a brief based upon the assumption of an "agents-only" approach. Subsequent discussions and deliberations resulted in the "agents-only" approach being dropped and adoption of the "agency-industry" approach, and in Mr. Cooper returning to the councils of the I.A.A.M. In subsequent I.A.A.M. activity, Mr. Root was not engaged in the same capacity.

The Rally at the Legislative Building

The rally was a major action by the automobile insurance industry. The process by which the idea was conceived and accepted

was political. The various details of the operation were worked out by a rational process. In its inception there was opposition to the idea that the insurance industry should support and stage a demonstration on the grounds of the Legislative Building. It was regarded by some industry managers that such an undertaking was not in keeping with the image of the insurance industry. Rallies and demonstrations were regarded at the time as tools of the radical left. As a consequence, many insurance industry people were very hesitant and opposed to the idea of a rally.

Once the overall goal had been accepted, it was possible to proceed in an orderly and systematic fashion, and the details were worked out in a short period of time in a rational manner.

Agents' Presentations to the Public Utilities Committee

The speeches given by many insurance agency representatives and agents to the Public Utilities Committee were decided upon in an organizational fashion. The presentations were based on the outline prepared by the I.A.A.M. This organizational procedure removed the need for decision by making the outline available for those agents who decided to use it.

In a similar manner, many actions by individual agents such as writing letters to editors, talking to clients and meeting with MLA's were organizational. This was because they were undertaken at the suggestion of, and as part of the plan of the I.A.A.M. and the joint agent-company committee. They represented instances of agents undertaking actions that were laid out as part of an overall plan by someone else.

Mr. Vannan's Actions After Bill 56
was Passed

After the automobile insurance legislation was passed the actions on behalf of the I.B.C. by Mr. Vannan were organizational, in the sense that they were routine and predictable. The pattern was that some announcement would be made by the government and shortly thereafter, a statement would be issued by Mr. Vannan criticizing or rebutting the position of the government.

It appeared that a critical response was a routine reply to any government statement.

Summary of Planned and Unplanned
Actions

The primary finding was that most major, first time, actions were formulated or decided upon in a political, and therefore unplanned fashion. This included actions such as the decisions on what the general approach to the campaign was to be, the I.A.A.M. brief and the concept of the rally. Once the major decisions had been made the details of how they were to be carried out were formulated according to a process more nearly resembling a rational one.

There were also a large number of actions taken by individual agents because they were suggested by the I.A.A.M. or because other agents and industry representatives were undertaking them. These actions included the briefs presented to the Public Utilities Committee of the Legislature, meeting with MLA's and discussions with clients. Actions of these types were organizational, and therefore, unplanned.

Overall the conclusion was that business actions were best

represented as being formulated in an unplanned rather than a planned fashion. People did not have a good understanding of the nature of their political opponents and they did not understand the process well. Major decisions often resulted from discussion, argument and negotiation and were more dependent upon the relative power of the discussants than upon a logical analysis of alternatives with respect to pre-specified criteria.

Factors Not Controllable by Business Managers

It would have been unwise to conclude that the entire reason for the outcome, which saw the automobile insurance industry shift from private to government ownership and control, was because of failure of business managers to participate effectively in the process. There were also general societal and other factors, which business managers had very little, if any, opportunity to control, contributing to the outcome.

Some of the factors outside the control of business managers which had an effect on the system changes included the following.

- . . the ideological commitment of the NDP party to public automobile insurance.

- . . the shift in voter attitude which resulted in the election of the NDP in 1969.

- . . the decline of the Progressive Conservative party in Manitoba.

- . . the decision by Edward Schreyer to run for the leadership of the Manitoba NDP party.

- . . the general trend, mentioned in the background

chapter to more government involvement in the economy.

Summary of Chapter

This chapter included an analysis of the participation by insurance industry managers in the process of formulation of the automobile insurance legislation in Manitoba. Detailed consideration of business actions was preceded by an examination of changes brought about by, and characteristics of, the process of government policy formulation. The automobile insurance legislation resulted in a change in Manitoba which saw automobile insurance changed from being a privately owned and operated venture to a government owned and operated one. Private enterprise lost the sales and profits from the industry and the power to determine the type of service offered. The public in the short and intermediate term was satisfied with the changes. Over the long run the benefits to the public were uncertain.

One point, however, was obvious. This was that managers in the insurance industry were powerless to prevent the very significant changes that took place.

To attempt to understand why these changes took place and why industry representatives were unable to prevent them the process of government policy formulation and certain aspects of business participation in it were examined. Examination of the process of government policy formulation indicated that the composite model of stages of the process of government policy formulation from the theoretical chapter provided a good description of the various stages of the process. It was also indicated that a political model was most useful in understanding the process leading to decisions at most

stages of the process of government policy formulation.

In terms of the ineffectiveness of business managers in preventing changes, examination of the process of government policy formulation indicated there were governmental and societal forces beyond the control of business managers contributing to changes.

There were also, however, factors within the control of business managers. The analysis showed that business managers did not do all they could have done with respect to these controllable factors. It was indicated that business managers failed to participate to any extent at early stages of the process. It was also indicated that many of the actions taken by business managers were not persuasive in influencing government decision. The reason for the lack of persuasiveness was that arguments were not always presented in terms designed to appeal to those to be influenced from their own point of view. This applied to early stages in terms of the service offered the public and at later stages in terms of the arguments used to influence the government.

Inputs to business actions were examined to see whether these might contain some explanation for the lack of effectiveness of actions. It was observed that managers in the insurance industry did not have any significant degree of previous experience with government and did not understand the governmental process when they first became involved in it. It was also observed that most actions by business managers were decided upon in an unplanned rather than a planned fashion.

Footnotes

¹R.E. Neustadt, Presidential Power (New York: John Wiley and Sons, 1960), p. 34.

Chapter 7

THE MANITOBA DRUG SUBSTITUTION LEGISLATION

Introduction

Literature issued by the New Democratic Party during the 1969 Manitoba provincial election campaign indicated that, if elected, the party would introduce a "program of total medicare including denticare and prescription drugs."¹ A pharmacare program began operation in Manitoba in January 1975. The drug substitution legislation, passed in July 1972 was, an integral party of the pharmacare program.

The material in this case indicates, first, the various industry and government participants in the process of formulating the drug substitution legislation. Following this, some background history to the legislation is outlined, and then the sequence of events leading to passage of the legislation is described.

Participants in the Process of Formulation of the Drug Substitution Legislation

The primary groups in the process of formulating the drug substitution legislation were the Manitoba government, including the Ministry of Health and the Premiers Office; the committee (the Klass Committee) established to review and report upon drug policy; the Manitoba Pharmaceutical Association representing Manitoba pharmacists; and the Pharmaceutical Manufacturers Association of Canada representing most of the major drug manufacturers in Canada.

The Drug Industry

There were approximately 150 pharmaceutical manufacturing companies in Canada in 1972.²

The companies manufactured drugs. Some of them engaged in research to develop new drugs. The report of the Klass Committee indicated that, on average, research and development expenditures were approximately six to seven percent of total sales.³ Marketing costs which included field selling, advertising and promotion, direct mailing and samples were about twenty-five to thirty percent of total sales.³ Profits in the industry were perceived as high by the Klass Committee. Their Report said that, "Profits in the drug industry are unquestionably high and lead most all other manufacturing sectors."⁵

"The major portion of drug marketing expenses was directed toward the prescribing physician" ... "Advertising and promotion was also directed toward pharmacists."⁶ Prior to the drug substitution legislation, doctors made the choice of medication for patients who then had the prescription filled by a pharmacist. The objective of drug company promotional activities including advertising and detail men was to convince the doctor to prescribe their particular company's product. There were two industry associations, the Pharmaceutical Manufacturers Association of Canada (PMAC) and the Association of Canadian Drug Manufacturers,⁷ often referred to as "generic" drug manufacturers. The PMAC was the older of the two associations and was the major group representing the companies in formulation the drug substitution legislation. It was founded as the Canadian Pharmaceutical Manufacturers Association in 1914 and changed its name

to the Pharmaceutical Manufacturers Association of Canada in 1965. Membership of the PMAC included about sixty companies, responsible for approximately eighty-five percent of Canadian prescription drug sales. Retail sales of human pharmaceuticals were estimated⁸ at \$258 million in 1968 and \$331 million in 1970. Estimated sales of prescription drugs in Manitoba in 1970 were \$9.8 million. Including dispensing fees the total amount paid for prescription drugs in Manitoba in 1970 was \$16.4 million.⁹ The approximately 150 drug companies spend, in total, more than twelve million dollars¹⁰ a year on research with most of this being spent by members of the PMAC. Drug research expenditures in the U.S. total over \$800 million a year.¹¹

The stated objectives of PMAC were:

- (1) To encourage research toward development of new and improved medicinal products, better facilities and methods for the pharmacological and clinical evaluation of them, and safer and more efficient methods for their manufacture, packaging and distribution.
- (2) To work constantly and closely with medical, pharmacy and other health groups and with government authorities to advance pharmaceutical science and promote the highest possible health standards for Canadians.
- (3) To disseminate scientific and statistical data and other material of special interest to the news media, consumers, health professionals, government and to industry employees.
- (4) To encourage consistently high standards of potency, quality and purity for pharmaceutical and biological products for the prevention, diagnosis or treatment of disease.¹²

The policy making board of directors of the PMAC was composed of fifteen members with five elected each year. The activities of the association were conducted by its permanent staff and by "sections," or committees of the membership. Each PMAC firm had one vote on each section and could designate representatives to each section. The

committees, or sections were medical, plant operations, marketing, personnel and financial.¹³ The permanent staff of the PMAC was comprised of four individuals located in the headquarters of the association in Ottawa. These were:

- (a) Dr. W. Wible - President
- (b) Mr. Guy Beauchemin - Executive vice-president
- (c) Mr. Don Harper - Director of Public Relations
- (d) Mr. Bob Everson - Executive Assistant

Financial resources for the association come from dues paid by members based upon their annual sales volume.

There was also a four member Prairie Task Force which had some relevance to the issue of drug substitution in Manitoba. The primary function of this committee was to forward material of relevance to the western Canadian situation to Ottawa when members became aware of activities. In the three year period 1970, 1971 and 1972 the committee held three meetings.

To keep the permanent staff and the relevant committees of the PMAC aware of developments a monitoring system was utilized in Manitoba as it was in other jurisdictions.¹⁴ This system consisted principally of clipping services, media monitoring or listening services and contacts through companies. Contacts through companies were not formalized; rather it was a matter of people contacting the Prairie Task Force or PMAC headquarters if they became aware of relevant information.

Informal contacts with Manitoba politicians and civil servants were maintained on a continuing basis by permanent PMAC staff and/or drug company employees.

The Manitoba Pharmaceutical Association

The Manitoba Pharmaceutical Association (M.Ph.A.) was established by legislation in 1878. Its membership was composed of all registered pharmacists in the province. The council of the M.Ph.A. had the power: to manage the property of the association; to formulate by-laws respecting examination of candidates for registration as pharmacists; to appoint members to the council; to discipline members; to formulate a code of ethics; and appoint examiners to examine persons wishing to be registered under the act.

The M.Ph.A. had traditionally made recommendations to the provincial government respecting changes in the Pharmaceutical Act. The association also made recommendations respecting dispensing fees to the government. Traditionally the government in power had accepted these recommendations. In other words, the M.Ph.A. had been the most influential voice in formulation of government policy respecting pharmacists.

The registrar of the M.Ph.A. who, as a rule, acted as the group spokesman in dealings with the government was Mr. Langley Jones.

Politicians

The Minister for the Department of Health and Social Development was Mr. Rene Toupin. Mr. Toupin was elected as an MLA for the first time in 1969. He was transferred and became Minister of Tourism, Recreation and Cultural Affairs in 1974.

An important figure in the process of formulating the policy was Mr. Saul Miller, who was chairman of the cabinet committee on Health, Education and Social Policy (H.E.S.P.). Mr. Miller was a

businessman who had an extensive political background. He had been a member of the provincial legislature since 1966, and prior to that had been mayor of West Kildonan (a Winnipeg suburb) and a Winnipeg alderman for eight years. He had also been a school trustee. Mr. Miller was regarded as a very astute, capable politician.

Civil Servants

The dominant civil service figure, and the dominant overall governmental figure, involved in the process of formulating the drug substitution policy was Mr. Rene Chartier. Mr. Chartier commenced work as an executive assistant to Premier Schreyer in January 1970.

Mr. Chartier had previously been advertising manager for Syntex Ltd., a drug manufacturer and member of the PMAC. Mr. Chartier had known Premier Schreyer for a number of years. He had worked in the drug industry for a period of time and sensed certain problems with respect to drug prices and advertising.

In terms of acting in a political atmosphere, regardless of whether it was gaining public acceptance of a plan or getting the Cabinet to agree on a desired course of action Mr. Chartier believed that the proper approach was to first decide what you wanted to do and then work back from there to determine what had to be done to gain acceptance of the plan.¹⁵

Technocrats

There were two advisory groups involved during the process of formulation of the drug substitution policy. The first of these was the Advisory Committee on Central Drug Purchasing and Distribution (The Klass Committee). This group was composed of a number of

Manitoba doctors and pharmacists and one economist.

The other advisory committee was the Manitoba Drug Standards and Therapeutics Committee, which was responsible for assembling the formulary of equivalent drugs after legislation was passed. It was composed of a number of medical and pharmaceutical people who were well versed in the problems of determining the equivalence of different drugs. Chairman of the committee was I.R. Innès, M.D., Head of the Department of Pharmacology and Therapeutics at the University of Manitoba.

Historical Background Information

This section outlines some of the significant historical developments prior to the specific issue of drug substitution in Manitoba. The review of historical developments highlights most of the significant questions regarding the drug industry. These included drug prices, quality of drugs, patents, brand versus generic names, and generic equivalency or bioavailability.

The United States Senate Sub-Committee on Antitrust and Monopoly - The Kefauver Committee

One of the first governmental inquiries into the drug industry was conducted in the United States by the U.S. Senate Sub-Committee of the Judiciary Committee on Antitrust and Monopoly chaired by Senator Estes Kefauver. Prior to that time there had been concern by observers of the industry about issues such as the magnitude of industry promotional expenses, the relationship of drug prices to manufacturing costs, the variation in price of supposedly equivalent products from company to company, rigidity of drug prices and control

of companies over doctors prescribing habits. The committee, however, served to attract and focus a great deal of public interest and attention on the industry and raised a number of fundamental issues regarding the industry.

The report of the U.S. Senate Committee suggested that legislation specific to the drug industry be considered because it exhibited the features of an administered price industry and, in addition, had certain other features which made it unique. The Report indicated that prices in the industry were: "set by administrative action, and "held constant for a period of time" and "maintained when demand falls off through a curtailment of output," and there was "price identity among the leading producers despite differences in costs and profits, price leadership and price followership, relatively high profit rates as compared to industry generally, and relative low breakeven points."¹⁶

Features which made the drug industry unique were indicated.

These included:

- (a) The critical bearing of the industry on public health and welfare, a factor responsible for the fact that many nations have a policy of not granting patents on pharmaceuticals.
- (c) The extent to which demand for products is inelastic. Mr. Francis C. Brown, president of Schering Corp. testified: Unlike consumer marketing, Schering cannot expand its markets by lowering prices. Cortisone proved this. After all, we cannot put two bottles of Schering medicine in every medicine chest where only one is needed, or two people in every hospital bed where only one is sick. Marketing medicine is a far cry from marketing soft drinks or automobiles.¹⁷

The need for legislation specific to the drug industry was seen to rest on the assumption that drug prices were unreasonable.

Respecting this question and an explanation of it the Report continued:

This question (of whether drug prices were unreasonable) is examined in Part I of the report which appraises prices against three standards — direct costs, prices in foreign markets, and profits. The extraordinary margins and profits, as shown in Part I, are made possible by a tight control of the market, which is the subject of Part II. Where the control is not effective, vigorous price competition tends to prevail, resulting in the type of price behaviour usually associated with competitive industries. The control of the market in turn stems principally from three sources of what in economic literature is referred to as 'monopoly power.' These are the monopoly grant inherent in patents, the exceptionally large expenditures by the major companies on advertising and sales promotion, and the success of the large companies in persuading physicians to write their prescriptions in terms of trade names rather than generic names. Any effort to bring price competition into the ethical drug industry must come to grips with these three sources of monopoly power.¹⁸

The Senate Hearings and Report received considerable press coverage and public attention.

Canadian Restrictive Trade
Practices Commission

In Canada an inquiry into the manufacture, sale and distribution of drugs was started by T.D. MacDonald Q.C., Director of Investigation and Research of the Restrictive Trade Practices Commission in April 1958.

The inquiry was initially undertaken because:

Following informal complaints about the high cost of drugs, the Director made preliminary inquiries about the sale and distribution of drugs in Canada to determine if a formal inquiry under the Combines Investigation Act was warranted. These preliminary inquiries did not indicate that any price-fixing arrangements existed but they did indicate that patents are used in such a way as to limit the number of firms engaged in the manufacture and sale of particular drugs; that prices of certain drugs are extremely high in relation to cost of manufacture; that such prices have in some cases remained unchanged for several years despite increased production and use of the particular drug; that there is marked uniformity of pricing among manufacturers; and that, both because of conditions peculiar to the drug field and because of the practices of firms in the field, there is only limited price competition in the supplying of drugs to the public. In view of this preliminary information, the Director started a formal inquiry under section 42 of the Combines Investigation Act on April 14, 1958.

D.W.H. Henry Q.C. succeeded Mr. MacDonald as Director of the Restrictive Trade Practices Commission and on February 28, 1961 submitted a report to the commission referred to as the Green Book. The final report of the Restrictive Trade Practices Commission was issued on January 24, 1963. It dealt with characteristics of the industry, drug patents, medical research in Canada, quality control and drug inspection, tariffs and sales tax, promotion of drugs, drug prices, drug company profits, and use of generic names for prescribing drugs.

Recommendations of the Report included:

- (a) A number of suggestions for changes to the Food and Drug Act to improve inspection of drugs.
- (b) Consideration of bringing advertising and promotion activities related to drugs under the Food and Drug Directorate.
- (c) A new federal government publication giving particulars on all new drugs.
- (d) Patents with respect to drugs should be abolished, as in the opinion of the Commission this was the only effective remedy to reduce the price of drugs in Canada.
- (e) The retail pharmacist practise of coding prescriptions to indicate the price charged should be abandoned.²⁰

The report also suggested that provincial legislation to encourage substitution of drugs might bring about a reduction in the prices of some drugs for which there were generic equivalents. It was also the opinion of the Commission, that such a program would not be effective unless there was wider prescribing of drugs by generic name. This would require the co-operation of physicians and pharmacists.

Some of the testimony heard by the Restrictive Trade Practices Commission indicated the arguments for and against substitution of generic drugs for more expensive brand name drugs.

The argument in favour of substitution of generic drugs for brand name drugs was that the price of the latter was higher. It was a fact that for certain drugs there were wide discrepancies in the prices of brand name items and their generic equivalents. The report stated:

The information on prices given in the Green Book generally shows that when drugs are sold under generic names by smaller manufacturers and distributors they are lower in price than the brand-named products of the larger manufacturers and that often the difference in price is substantial. The same situation would apply where a manufacturer sells to a hospital at a discount from list price.²¹

One of the reasons for this situation was presented by Cyanamid of Canada Limited. They said:

We could quote much lower prices on some popular antibiotics if, like the imitator, we concentrated upon existing drug forms that were the largest sellers, after the expensive promotion had already been paid for and after the drug had won the confidence of the medical profession. Cyanamid maintains a broad product line, many of the items of which have little or no commercial significance even though they may be of vital medical importance in particular cases. Examples of these are such life-saving drugs as tetanus and botulism antitoxines, on which we lose money annually. Furthermore, we maintain a countless variety of different dosage forms of the drug involved and keep our products stocked in 4,860 drug stores across the country. Most imitators do not offer this kind of variety or service. They take a few popular forms of a widely used product that has already been successfully promoted to, and accepted by, the medical profession. They do not attempt to manufacture and distribute the less popular and therefore less profitable forms. It is always possible for the imitator in any industry to under-sell the large creative manufacturer. He can sell more cheaply to institutions who buy generic name because he has no marketing operation and no research costs. As for the much larger retail market, in order to effect sales to the public through drug stores by means of doctors' prescriptions, he has to build a marketing organization. Once he has done this, he has to make sure that he is not merely creating business for someone else. He must find a way to persuade the doctor to specify the product of his manufacture. One way is to suggest that if the doctor will prescribe by generic name, that he attach the manufacturer's name after the generic name as, for example, as seen in this plea on page 2 of the Gilbert Surgical News for May 1961, where Mr. Gilbert suggests writing the prescription under its generic name and specifying 'Gilbert.'²²

On the question of substitution of generic for brand name drugs the Report of the Restrictive Trade Practices Committee recorded that of four physicians questioned on their use of generic versus brand name drugs three of them "resort to brand names in prescribing certain drugs lest an inferior preparation be dispensed under a generic name," the other, "relies on the druggist to supply his clients with preparations of good quality when he dispensed under a generic name."²³

Some of their reasons were as follows:²⁴

Dr. Schechter: Yes, I think that it would be desirable (to use generic rather than brand names in prescribing medications) for the reasons that I mentioned, except that we are somewhat concerned about the quality of a drug that would be dispensed in certain cases with the generic name.

There is some fear on the part of the physician that the quality of the drug may not be up to par and so we hesitate using generic names too widely as yet.

Dr. Reardon: I would say that primarily I prescribe trade names because they are easier to remember and it is the way that you are used to doing it and you get into a habit of doing it.

If I prescribe by the generic name I would feel obliged to add to that one of the companies who supplied that drug who I felt supplied quality drugs.

I don't think all the drugs coming into Canada are quality drugs and I feel that we have an obligation to our patients to see to the best of our ability that what they get is the best. The prime consideration in drugs, to my point of view, is to see that the drug will do the job that you want it to do. Price is not the prime consideration. The prime consideration is getting the patient better. After that the price must come into it, but the prime consideration is to see that the patient gets the drug that will cure that patient for that particular disease.

All the drugs are not examined by the food and drug group in Ottawa as for quality, biological and chemical quality or quantitative properties. There is no good using a drug because it is cheap if you are going to get hills and valleys in its potency in the action that it will have. If you are going to get hills and valleys, you do not know why your patient is not responding to that drug, and it is like anything else.

Over the years you get to recognize that a company, whether it is A, B, or C, has put out drugs that certainly as far as you know, and you have never heard of it being otherwise, that have in their capsules or in their tablets or the kind of medicine involved, what that company say is there.

It is like having a Rolls-Royce. You don't worry about the quality because over the years you come to recognize that it is there and you come to realize that drugs supplied by certain companies, the content in their capsules, the quality and quantity of medicine that you are prescribing are there. But you cannot be sure about a new pill by a new company that might be set up simply for making this particular type of pill for distribution and there is no real worry about them except making money. You say perhaps there is no real worry behind the larger companies except to make money.

The larger companies spend considerable amounts of money on research in drugs. A lot of these small outfits spend nothing on research. They may only have an office in their hat, and yet they distribute drugs they bring in from Italy or France and wonder why the general public don't accept them.

I think it would be very dangerous for doctors to accept some of these drugs that come in without having some standard of quality. If the Government at Ottawa (who) through their group are responsible for quality can say to the doctor, 'We are examining every batch of such and such a company's drugs and we find that it contains the ingredients and amount it is suppose to contain,' you won't ever find lack of acceptance of the lower priced drugs that you mentioned.

Also, I find that the patient on one occasion will receive a white tablet, on another occasion a yellow tablet, and they come to me and say: 'I have not got the proper medicine. The druggist is no good.' So as the present arrangement stands, it means we must have prior arrangement with our pharmacist to have any idea what is being given. Certainly, if the preparation, if we could be sure that it was pure and packaged as expected in terms of weight, and as can be shown, studies have been made in the United States, there is considerable variation as to the drug contained in some of the preparations. If we could have an assurance that that was the case, then as a doctor we could do much to reduce the costs to our patients.

Alberta Legislation on Drug Substitution

In April 1962 the Alberta government passed an "Amendment to the Alberta Pharmaceutical Act," which made it possible for pharmacists

in that province to substitute generic equivalents for brand name preparations specified in a prescription when an equivalent existed. The prescribing physician could prevent substitution by either designating the name of the manufacturer along with the brand name or by specifying that no equivalent was to be dispensed. No list of equivalent drugs was published by the government.

The legislation had limited effectiveness in reducing drug costs because the Alberta division of the Canadian Medical Association adopted a resolution recommending that its members make extensive use of the "no substitution" provision in the bill. Their reason for the move was a desire to avoid any possible danger of an inferior drug being dispensed to their patients in place of a brand name drug.²⁵

The Harley Committee - House of Commons Special Committee on Drug Cost and Prices

The terms of reference of the House of Commons Special Committee on Drug Cost and Prices for its 1966 hearings were:

- (a) RESOLVED: That a special Committee be appointed to continue the inquiry into the report upon costs of drugs, begun by special Committee during the Twenty-Sixth Parliament, and
- (b) That the Committee be empowered to consider and recommend, as it may deem expedient, respecting a comprehensive and effective program to reduce the price of drugs.²⁶

Mr. D.H.W. Henry Q.C., Director of Investigation and Research Combines Investigation Branch, expanded upon the problem being considered by the Committee when he appeared as a witness before it. He said:

In further defining the problem the following points may be considered. (a) The price of patented drugs in Canada is too high, and I emphasize the word 'patented.' This fact has been determined by two commissions (Restrictive Trade Practices Commission and Hall

Commission). The prices of patented drugs have been described as among the highest in the world if not the highest. For the purposes of this Committee's work, however, it is necessary only to make the point that the prices of patented drugs are higher than they need to be. (b) The high level of such prices is attributable primarily to lack of effective price competition. This is likewise the finding of the two commissions.

This is also the view of one professional economist who has appeared before this Committee and it is a view that I personally share.²⁷

The Harley Committee in its conclusions confirmed the previous findings and came to, "The inescapable conclusion that drug prices in Canada are in fact high and that every fair and reasonable step should be taken to reduce these prices."²⁸

With respect to the controversy over use of brand name drugs or their generic counterparts, the Harley Committee said:

The brand name manufacturer often gives the impression that generic products are not safe. It is the opinion of your Committee, however, that this viewpoint is not necessarily valid, it not only having been challenged by the generic drug manufacturers but also by purchasing agents of some hospitals and government departments who have ordered, and continue to order, (see Minutes of Proceedings and Evidence, page 1497) drugs by their generic names. The Food and Drug Directorate made it clear that, in their opinion based on the testing they perform, generic named drugs and brand name drugs are equally 'safe.'²⁹

A major input on this decision respecting the issue of the quality of brand name and generic drugs was from Dr. R.A. Chapman, Head of the federal government Food and Drug Directorate. He testified to the Committee Hearings that:

There does not appear to be any significant difference between drugs sold under a generic name and those sold under a brand name. Similarly, imported drugs appear to be of the same general quality as domestic production.³⁰

Prior to this, on June 16, 1966, the PMAC made a presentation to the Committee. Their summary on the question of generic equivalency³¹ indicated: support for brand names on drugs rather than

generic names; that products brought on a price basis did not always meet quality standards; that the Alberta drug substitution legislation had not worked; that large established companies produced drugs of more uniformly high quality than smaller manufacturers; and finally that it was questionable whether drugs could be equivalent.

Other Drug Inquiries

Other inquiries into various aspects of the drug industry prior to 1965 included a study of the cost of prescription drugs published in The United Kingdom in 1959; a report on the retail structure of drug prices in Manitoba by a joint committee of the M.Ph.A. and the Government of Manitoba in 1961; a survey of dispensing costs in October 1965 for the Canadian Pharmaceutical Association of British Columbia; an inquiry by a Select Committee of the Ontario Legislature in 1963; a 1964 report for the Hall Commission by the Research and Statistics division of the Department of National Health and Welfare respecting the provision, distribution and cost of drugs in Canada; and the Boyd Committee and Hilliard Committee appointed by the Department of National Health and Welfare study, among other things, some aspects of the drug industry.

A U.S. task force on prescription drugs, the Gaylord Nelson Task Force, (A Sub-Committee on Monopoly of the Select Committee on small business) prepared by the U.S. Department of Health, Education and Welfare in 1968 made a series of recommendations on how to alter physician's prescribing patterns and encourage rational prescribing.

Federal Legislation

After the reports of the Restrictive Trade Practices Commission

and the Harley Committee, the federal government introduced measures intended to lower the cost of drugs. The federal sales tax was removed from drugs in 1968 and in 1969 legislation was passed to make the licensing of patented drugs compulsory. Bill C-190 on compulsory licensing, re-introduced after Mr. Trudeau succeeded L.B. Pearson as Prime Minister as C-102, was heavily debated in the House of Commons. The pharmaceutical industry, through the PMAC, was very active in its opposition to the legislation.

Ontario Parcost Program

The Ontario Parcost Program was introduced in 1970. Its objective was to lower prescription costs by making available an index of comparable products, and allowing use of the lowest price equivalent drug. The Comparative Drug Index (CDI) arranged pharmaceutical preparations in comparative categories and groupings according to the nature, strength and dosage form of the active therapeutic constituent.

The CDI was intended to serve as:

- (i) A guide to practitioners in identifying quality products for prescribing.
- (ii) A guide to pharmacists in stocking comparable products for dispensing, and
- (iii) A guide to professional committees in the selection of pharmaceutical preparations recommended for use in hospitals.

Symposium on the Physiological Equivalence of Drug Dosage Forms

The symposium on physiological equivalence was sponsored in June 1969 by the Food and Drug Directorate of the Canadian Department of National Health and Welfare. The symposium reflected the degree of professional recognition of and concern about the problem of

physiological equivalence of different drugs.

In his introductory remarks to the symposium Dr. R.A. Chapman, Director General of the Food and Drug Directorate commented that:

This year's symposium on the Physiological Equivalence of Drugs, or bioavailability as some call it, is particularly topical. Interest in this aspect of rational drug use is at an all time high. It is now generally recognized that the availability to the body of the active ingredients of drug preparations must rank along with purity and potency in any comprehensive evaluation of drug quality.

But Physiological availability was not always considered so important. When scientists of this Directorate began work in this area some fifteen years ago, there was a general lack of appreciation of the importance of physiological availability, not only by other research workers but by practising physicians, regulatory agencies such as our own, and drug manufacturers. Times have changed, the new science of bio-pharmaceutics, which draws on the knowledge and techniques of many disciplines, has developed. Although scarcely a decade old, this new science already has its own unique body of doctrine and its own leaders. Despite the fine work of the pioneer investigators may I suggest to you that bio-pharmaceutics would not have reached its present prominence had it not been for the developments in areas of human activity not related directly to bio-medical sciences. I refer of course to such programs as the Medicare program in the United States, to legislation such as Bill C-102 in Canada, and for the information of our friends who are not that familiar with the terminology of this legislation, this was the Bill to amend the Patent and Trade Marks Act and the Food and Drugs Act in the Government's program to reduce the price of drugs. But both the program in the United States and legislation such as Bill C-102 have resulted in a marked increase in public and governmental concern, not only for drugs purchased, but also for drug quality and drug safety. The debate and the questions that were asked in regard to Bill C-102 have inevitably led to discussions concerning the physiological equivalence of various brands of specific drugs produced by different manufacturers. Evidence that administration of various brands of drugs of a given drug product may not result in similar blood levels of the active ingredient raises many questions of vital importance to the practising physician, the medical investigator, the drug manufacturer and the Government regulatory agency. Even more important is the question of what is the clinical significance of such differences. Does it really matter clinically if a brand of a particular drug reaches a desirable blood level of its active ingredient one or two hours later than does another brand. What is the correlation between blood levels and therapeutic effects of drugs? What factors and pharmaceutical formulation procedures affect drug availability in vivo? Is it possible to develop a single simple in vitro test which will

predict accurately the in vivo availability of a drug? What are the limiting factors in drug absorption? What are the causes of differing individual responses to drug products. These are vexing questions. They are difficult questions, in the areas where the frontier knowledge is changing nearly every day. But they are questions which we in the Directorate are asking ourselves, for the answers to these questions have important implications in terms of our regulatory posture. Perhaps the eminent experts from whom we will hear during the symposium can assist those of us who must bridge the gap between the scientific information that we have, and public policy. I sincerely hope that this will be the case.³²

In his summary statement to the symposium Dr. A.B. Morrison, the Director of Research of Laboratories of the Food and Drug Directorate said that:

The first great lesson this Conference has brought home to me more clearly than ever before is this: bio-pharmaceutics has come of age ... No longer is it just a laboratory curiosity dabbled in by impractical dreamers ... Its real, its vital; and it has important and significant things to say to the professions of pharmacy and medicine ... A pharmacy school that doesn't teach bio-pharmaceutics to its students and doesn't have an active research program in bio-pharmaceutics is not with it, today -- and I'm afraid that relegates too many of our schools in this country to the 'also ran' category ...

Our own work at FDD, and that reported to you during the last two days of this Conference, has led us to another conclusion regarding bio-pharmaceutics. Some manufacturers still haven't got the message about the importance of this part of their job. I can promise them that unless they understand and apply the principles of bio-pharmaceutics in their product development and production programs, they can expect to be in trouble -- with the regulatory agencies, with the physicians, from their competitors, and from a public which is growing ever-more sophisticated and ever-less willing to accept at face value the ballyhoo which all too often takes the place of hard scientific facts about drugs. Conversely, the manufacturer who does his homework about bio-pharmaceutics stands to prosper, or at least will be able to provide the quality of drugs which all good manufacturers wish to do.

I've already mentioned to you the fact that not all manufacturers seem to have understood the importance of bio-pharmaceutics has for them. For those true believers in the natural superiority of members of the PMA and PMAC, -- a sort of modern equivalent of the Divine Right of Kings, I suppose it will seem heretical when I tell you that in our experience -- and it's quite extensive -- problems with drug availability cut across company size, brand names and types of product. The truth is that from a bioavailability point of view, there are some big companies

who do an excellent job and some who don't do so well; and the same holds true for little companies. Size alone is no criterion of excellence as the mouse said to the lion.³³

The General Industry Approach

The general approach taken by the industry as events unfolded was to make presentations depicting the drug industry point of view. As Mr. Don Harper, the public relations director of PMAC said in a speech to a group of industry representatives:

Representations have been made to all those investigating bodies, to the professions of medicine and pharmacy, to federal and provincial governments and opposition members, to federal and provincial civil servants, the press and others -- not once but time after time, using solid, factual, compelling material.

Mr. Harper indicated that this general approach had not been highly effective. He followed the above statement by saying:

Some might say that 'All we have to do is tell our story!' This implies that if we find the right words our troubles will go away. They won't.

The fact is that we have 'told our story' often, and frequently well. But finding the right words will not make our troubles go away. We have told our story -- but we have not 'made our case' yet. Because making our case is not a matter of an article, a brief or an advertisement.³⁴

Chronology of Events

The June 1969, Provincial Election

As mentioned earlier, campaign literature of the NDP in the 1969 election indicated that, if elected, the party would introduce a "program of total medicare including denticare and prescription drugs." At the time of the election campaign there was not concern about an NDP election by representatives of the M.Ph.A. or the PMAC.

Mr. Sidney Green was appointed Minister of Health and Social Services immediately after the election. However, he became the

Minister of Mines and Natural Resources in a cabinet shuffle announced December 18, 1969 and Mr. Rene Toupin became the Minister of Health and Social Development. Mr. René Chartier joined the civil service as an assistant to Premier Schreyer in January 1970.

Feasibility of a Crown Corporation
to Manufacture Drugs

The first public announcement regarding the drug industry policy was on Thursday, February 12, 1970. Premier Schreyer announced a feasibility study to be undertaken regarding establishment of a crown corporation to manufacture drugs in Manitoba. The suggested market base for the proposed corporation was publicly sponsored institutions such as hospitals, clinics and mental institutions. The study was to be undertaken jointly by the Ministries of Health and Social Development, and Industry and Commerce, headed by Rene Toupin and Len Evans respectively.

At the time of the announcement, and after, there was a feeling among government personnel responsible for the drug industry that they would like to acquire more control over the industry. The object was to achieve lower prices and more manufacturing of drugs in Manitoba. Although ideas were not formalized at that stage the thinking was that a program encompassing universal pharmacare, centralized governmental purchasing and distribution, more local manufacturing, and drug substitution could be used to achieve lower cost drug costs in Manitoba. 35

Advisory Committee on Central Drug
Purchasing and Distribution (The
Klass Committee)

It was decided in December 1970 and January 1971 by Len Evans, Rene Toupin and Rene Chartier that the best way to proceed toward introducing a drug policy was to have a committee review industry problems. There was no consultation with the Manitoba Pharmaceutical Association, PMAC or any other outside group at that stage.

An Order-in-Council on January 27, 1971 established an advisory committee to look at a number of issues with respect to the drug industry. The terms of reference of the committee were "limited to a central drug purchasing and distribution scheme."³⁶ One of the items to be examined was, "The Barcost Program recently introduced in the Province of Ontario; the feasibility of introducing this type of program in similar or revised form as an integral part of the proposed drug agency operations."³⁷ Other aspects of a central purchasing and distribution agency to be considered included the most appropriate form of organization, purchasing policies, procedures to ensure quality drugs, the types of drugs to be handled, the availability of alternative sources of drugs, warehousing requirements, participation by institutions and retail stores, and the impact on the existing drug wholesalers and retailers of such a program.

Announcement of membership of the committee was made on Friday, January 29, 1971. Included were five doctors, six pharmacists and an economist. Rene Chartier was in favour of limiting the committee to seven members, but eventually it was agreed that twelve men would serve on it. Of the twelve, six were suggested by Rene

Chartier. Two of the doctors on the committee were appointed because of their association with members of the cabinet. Mr. Toupin suggested two people, Dr. Bostock because he was one of the few NDP card carrying MD's in Manitoba, and R.R. Publow from the Manitoba Health Services Commission. J.G. Campbell, the economist, was selected by Mr. Evans from within the department of Industry and Commerce, and Archie Orlikow arranged his appointment himself through his brother David Orlikow, an NDP Member of Parliament from Manitoba.³⁸ The list of committee members with the people who were responsible for their appointment is as follows:

<u>Committee Members</u>	<u>Appointment Sponsored by</u>
(a) Five doctors, including	
Dr. Alan A. Klass - Chairman	Group in Cabinet
Dr. D. Blouw	Rene Chartier
Dr. A.E. Cera	Group in Cabinet
Dr. D. Bostock (subsequently retired because of poor health)	Rene Toupin
Dr. M. Kovacs	Rene Chartier
(b) An economist	
J.G. Campbell	Len Evans
(c) Six pharmacists, including	
A.W.S. Garvin	Rene Chartier
R.J. Mulairé	Rene Chartier
J.C. McMillan	Rene Chartier
I. Shwartz	Rene Chartier
R.R. Publow	Rene Toupin
A. Orlikow	own initiative

The executive secretary of the committee was J.R. Troniak. There was no consultation with representatives of the M.Ph.A., the PMAE or any other outside group respecting the terms of reference and membership of the committee. Mr. Chartier's criteria for selection of people to the committee were their qualifications, their disposition with respect to the issues of drug policy, and their temperament. He was interested in whether they could work compatibly with other committee members and with government representatives.

Another reason for not appointing industry representatives to the committee was that it was perceived the industry was fragmented between brand name and generic name producers and there was no consensus between them regarding an industry position.

Mr. Chartier was not appointed to the committee because he had formed some personal judgements on what action was required and it was desirable to have the committee function as objectively as possible.

Reaction to Announcement of the Klass Committee

When the Advisory Committee on Central Drug Purchasing and Distribution was appointed on January 29, 1971 the M.Ph.A. was upset because they had not been contacted by the government concerning appointment of members or the terms of reference. The members of the association were concerned that the committee could recommend an alternative to the existing method of distributing drugs such as centralized drug depots or hospital dispensaries. Accordingly, a letter was sent to Premier Schreyer from the M.Ph.A. on February 2, 1971 complaining that the pharmacists had not been approached concerning establishment of the committee. They indicated that the executive

of the association had not been able to get a call through to government contacts since January 19th. The letter also indicated that four of the six pharmacists named to the committee had not known of their appointments until their names appeared in the newspapers.

A mass meeting of members of the M.P.A. was called to protest the manner of appointment of the committee. The meeting, held in the Viscount Gort Motor Hotel on Monday, February 8th was attended by 250 association members. The resolution passed at the meeting was;

The Council and Membership of the Manitoba Pharmaceutical Association has formulated the following Policy Statement in response to the Provincial Government's announcement setting up an Advisory Committee to study and recommend policies and practices to be followed by a central drug purchasing and distribution agency to serve all Manitoba:

1. We endorse the Government's endeavours to seek methods of lowering the cost of drugs to the people of Manitoba.
2. We are pleased that the government has followed our lead in investigating product selection and the Ontario Parcost Program as a possible method of lowering the cost of drugs in Manitoba.
3. We are pleased that the Provincial Government has seen fit to appoint Licensed Pharmacists to the committee, but we object to the manner in which the members of the committee were appointed.
4. We will offer any assistance possible to the committee and to the members of our Association appointed to the committee.
5. We remain pledged to the belief that our current widespread method of drug distribution to the public through retail pharmacies is the most practical and provides the best service at the lowest cost to the citizens of Manitoba.
6. We are unalterably opposed to any method of drug distribution that would deprive the citizens of Manitoba of the traditional personalized and professional services of the Community Pharmacist in the final distribution of pharmaceuticals to the ultimate recipient, the patient.¹⁹

In reply to the strong opposition about not being consulted,

Ernie Petrich, of Mr. Toupin's department, indicated to the group that

the association was not consulted, "because it is government policy in establishing committees to prevent the representation of vested interests."⁴⁰

Throne Speech - 1971

The Throne Speech of April 7, 1971 forecast a program to reduce the cost of prescription drugs. However, no legislation was introduced during the 1971 session because the advisory committee had not finished its work at that time.

Klass Committee Procedures

Due to the wide variety of problems addressed to the advisory committee, and the divergent interests of the various members, three sub-committees were set up. One sub-committee reported on the problems involved in professional relationships and the attitudes and complexities involved in drug quality evaluation. Another sub-committee was responsible for the study of organizational forms and structures for central purchasing and distribution and for a study on drug information centres. A third sub-committee, which did not report, began a study of factors relating to an insurance plan for prescription drugs.

The committee utilized reports of previous inquiries into the drug industry, studies on specific issues from consultants, and in camera sessions with representatives of a number of organizations.⁴¹

PMAC Submission on the Klass Committee

The PMAC was, of course, aware of the appointment of the Advisory Committee on Centralized Purchasing and Distribution after it

was announced and was understandably concerned, about it. However, PMAC representatives had not been contacted prior to the announcement of the committee, and until the announcement were unaware it was to be formed.

After the committee was formed the PMAC was asked to make a confidential submission concerning centralized purchasing and distribution of drugs. The brief was drafted by Don Harper at PMAC headquarters in consultation with the Board of Directors of the association and other headquarters personnel.

It was decided that the stance of the association would continue to be to point out the hazards of centralized purchasing and distribution.⁴² To this end a large brief was compiled which presented a number of considerations to be taken into account before making a decision to implement a central program. Some of the points dealt with in the May 1971 brief included: the effects of central purchasing of drugs; suggested principles to be followed in planning a new program; comments of people involved in group purchasing of drugs; and volume production of drugs.⁴³

Klass Committee Report

Under the strong leadership of Dr. Klass the committee was able to come to a consensus. Major recommendations of the committee, released on March 9, 1972, the same day as the Throne Speech, included.

1. Establishment of a Crown corporation for central drug purchasing and distribution.
2. Establish a Manitoba Committee of Drug Standards and Therapeutics (MCDST) to:
 - (a) Select certain high volume drugs (MANCORE) for inclusion in competitive bid tenders for the purpose of central purchasing

and distribution.

- (b) Prepare a Manitoba Formulary (MANFORM) of equivalent brand name categories along with the respective prices of these medications.
3. Enact legislation to empower a pharmacist to dispense drugs selected for central purchasing (MANCORE) and allow them to substitute an equivalent for drugs listed in the Formulary (MANFORM).
4. Negotiate a fee schedule with pharmacists which relates to the cost of ingredients and a dispensing fee.
5. Legislate legal immunity for doctors and pharmacists when substitutes used.
6. Request the federal government to assess the effect of present compulsory licensing of patented drugs on drug costs.
7. Establishment of a Drug Information Centre to supply information for all health field practitioners.
8. Measures to regulate drug labelling by manufacturers and pharmacists.⁴⁴

Throne Speech - 1972

With regard to drug substitution, the Throne Speech of March 9, 1972 read, "My government will ask you to permit, under specified conditions, substitution of prescription drugs by a licensed pharmacist in an effort to lower the cost."⁴⁵

Reaction to the Klass Report

After the Klass Committee report was made public, Don Harper at PMAC headquarters summarized it for members of the association. It was noted that:

It is ironic that the Klass Committee devoted much of its criticism in the first 57 pages to 'brand names' -- picturing the practise as costly, deceptive, irrational, etc. only to find it necessary to coin 'brand' names for their own new programs -- MANCORE and MANFORM.⁴⁶

The summary also commented that:

By now it is obvious that the Klass Report will likely have repercussions in every province of Canada. The PMAC Board of Directors will no doubt give attention to our industry's response.⁴⁷

On April 28, 1972 the PMAC sent a letter to the Manitoba Medical Association.⁴⁸ The letter indicated the concerns of the PMAC about drug substitution. It discussed clinical equivalence and legal responsibility of the doctor for substitute drugs.

The M.Ph.A. took no action when the Klass Committee report was released on March 9, 1972. The association was pleased that the report had not recommended changes to the existing system of retail distribution of drugs. There was general support for the principle of drug substitution from members of the association.

The NDP Approach in Introducing the Drug Substitution Legislation

The reason for introducing drug substitution legislation before other drug related legislation was because it was seen as the central requirement for introduction of an overall drug program. Without it there would be no central purchasing and distribution, nor a provincial pharmacare program either on a full scale or limited basis. Substitution was important to these other programs because it was felt it would keep costs down in two ways. Firstly, it allowed for greater use of lower list price generic equivalent drugs and secondly, it was hoped it would serve as a means to encourage the large brand name firms to reduce their prices in Manitoba.⁴⁹

The approach used to introduce the drug substitution legislation (Bill 12) was developed by Mr. Saul Miller, Chairman of

the Cabinet Committee on Health and Social Services. The approach was initially to introduce weak legislation, let the opposition and interest groups such as doctors, pharmacists, and drug companies criticize it as inadequate, and then introduce the desired legislation as amendments and credit the opposition for their assistance. This approach was followed because the government was not prepared to entertain long periods of time for industry lobbying.⁵⁰

The initial bill was based on the wording of the 1962 Alberta drug substitution legislation. It read:

Substitute Prescription by Generic Name

46 Where a prescription refers to a drug or a drug combination by a brand name or a name other than its generic name, notwithstanding any other law, a pharmacist, in dispensing the prescription, may use a drug or drug combination that is the generic or brand name equivalent of that named in the prescription unless the prescriber indicates otherwise. (a) By designating the name of the manufacturer; or (b) by specifying that NO equivalent is to be dispensed.⁵¹

Discussion of Bill 12 in the NDP caucus, in late March and early April 1972, revealed that some of the caucus members were anxious to proceed even further with the mandatory aspects of the legislation. Some suggested that the right of doctors to prevent substitution should not be included in the act. This was not considered to be a practical move.⁵² The sentiment, however, prevailed and in debate on 17th leading Cy Gonick (NDP - Crescentwood) said "Of course, Mr. Speaker, I expect that the government will be watching for possible abuse on the part of the medical profession; certainly the pharmacists will be monitored in some way. But there is a possibility that doctors would want to instruct (obstruct) this legislation -- and they have the ability to do so by -- by instructing the pharmacist on every occasion that they cannot substitute. That would be, Mr. Speaker, an abuse,

and I think that the government will honestly have to watch for that. And that could be monitored too, as the Minister reminds me."⁵³

Legislative Proceedings

The drug substitution bill (Bill 12) was introduced for first reading in the Legislature by Mr. Rene Toupin, Monday, April 12, 1972.

On a related item, Mr. Toupin announced on April 20th that the provincial government was considering extending medical coverage to include the cost of medicines and drugs for elderly people. When Mr. Toupin introduced the bill to the Legislative Assembly for second reading on May 17, 1972 he said that the bill was very short but that it had the "possibility of many implications."⁵⁴ Mr. Toupin pointed out that Alberta had had a similar plan since 1962.

L.R. Sherman (PC - Fort Garry) spoke after Mr. Toupin and criticized the bill for not going far enough and for being potentially ineffective. He did say that he agreed with the intention of the bill, however. He also noted that his views were shared by doctors, pharmacists, and representatives of the Manitoba Pharmaceutical Association with whom he had talked prior to making his remarks.

On June 20, 1972 Inez Trueman, the Progressive Conservative health critic, spoke on Bill 12 and criticized it for not going far enough to reduce drug costs. She suggested that the Parcost program being introduced in Ontario at that time should be investigated. In particular she felt there was a need to publish a list of equivalent drugs as was to be done in Ontario.⁵⁵

Following Mrs. Trueman, Mr. Miller, spoke and said in his introductory remarks that he was;

Surprised at some of the comments they (Mr. Sherman and Mrs. Trueman) made but I want to say this to them, you know, Bill 12 is not the beginning nor the end of the world. There was no intention in Bill 12 to solve all the problems that have been with us for many many decades. What Bill 12 is doing is to begin to take the first necessary steps to make it possible to provide drugs at a price which is fair, equitable, and which would relieve the high cost which has hardened so many people.⁵⁶

In concluding Mr. Miller said:

Now I hope that when this government moves in this direction that the members opposite who today, and two weeks ago, got up and chided this government for not moving fast enough, or firmly enough, or with determination, that they will stand beside us when the powerful lobby of the Manufacturers Association comes storming into Manitoba, because they will, and I fully intend and hope that they will now stand beside us to meet this onslaught, because I predict it will happen. And they will use every attempt possible to prevent the kind of, firstly, even this legislation, and secondly any amendments thereto or future legislation, and future actions by this government which they now, I'm happy to hear, want to share with us.

So with these few remarks, Mr. Speaker, I hope this bill can go to committee for further discussion, and further elaboration, and as I say I trust when we get there we'll get the support of members opposite when those who oppose even this minor step, and any amendments that may be added thereto, when people come to oppose this that they will stand beside us in helping to achieve the goals which now they share with us and that is to bring to Manitoba prices for drugs which are reasonable, fair, and which do not gouge the public as they have over the years.⁵⁷

When the bill was being debated in the Legislative Assembly, representatives of the M.Ph.A. were contacted by L.R. Sherman and Inez Trueman for their views on Bill 12. L.R. Sherman said:

I want to tell you, Mr. Speaker, what individual pharmacists and officials of the Manitoba Pharmaceutical Association have said to me about this legislation -- and I have talked to them and to other persons here in the Province of Alberta both at considerable length on this legislation and the message that's conveyed to me is that the bill is in actuality a retrogressive step.⁵⁸

During the time Bill 12 was being considered for second reading the M.Ph.A. maintained a low profile, supplying information where requested.

During second reading of Bill 12, PMAC staffers, including Mr. Don Harper and Dr. W. Wigle, were in contact with Inez Trueman to provide her with information relevant to drug substitution. Mrs. Trueman subsequently used some of the information on bio-availability in her speech on June 20, 1972.

Legislative Committee

The bill was then sent to the Law Amendments Committee of the Legislature. On June 29th, a brief was presented by Dr. Ashley Thompson, Chairman of the Pharmacy and Drug Committee of the Manitoba Medical Association (MMA). He indicated that the MMA was opposed to the proposed legislation but said they would favour proper drug substitution. He said that a clear definition of "equivalent drug" was required. An independent committee to review all drugs and determine their equivalents was suggested.⁵⁹

The PMAC also made a presentation to the committee. The essential aspects of the presentation are outlined in the following excerpts of a memo sent to association members:

Re: Manitoba Bill 12

Tuesday evening, June 27th, PMAC learned that Manitoba's Amendment to the Pharmaceutical Act (Bill 12) to legalize substitution by the pharmacist would be coming before the Legislature's Law Amendments Committee Thursday, June 29th at 10:00 a.m. This resulted from the Legislature's passing Bill 12 on second reading the previous week.

PMAC president, Dr. W.W. Wigle, presented the attached amendments to the legislators. The variety of amendments was not assembled to necessarily be expressed in perfect legal language; rather it was intended to provide a focus for assessing the steps necessary to avoid the difficulties associated with substitution. They were largely based on previously approved PMAC positions.

Dr. Wigle introduced his remarks by speaking of the two kinds of drug products on the market -- proven and unproven. He

acquainted the politicians with the recent Canadian Medical Association resolution condemning unauthorized substitution. He received a cordial, courteous hearing.

Mr. J.D. Harper, who accompanied Dr. Wigle, talked with government representatives afterwards. They expressed the view that PMAC is proceeding responsibly and constructively.

PMAC
Ottawa 60

The suggested amendments Dr. Wigle presented were formulated after it was heard the bill had received second reading. The suggested amendments were as follows:

Amendments to Bill 12 for Discussion

1. Delete Section 46 from Bill 12 since it breaches the rights granted under Section 2 of the Federal Trade Marks Act.
2. Amend Section 46 in Bill 12

Where a prescription refers to a drug or drug combination by a brand name or a name other than its generic name, notwithstanding any other law, a pharmacist, in dispensing the prescription may use a drug or drug combination that is the generic or brand name equivalent of that named in the prescription if the prescriber indicates that substitution is permitted.

3. Add an amendment to The Pharmaceutical Act to the effect that:

46. Where a prescription refers to a drug or drug combination by a brand name or a name other than its generic name, notwithstanding any other law, a pharmacist, in dispensing the prescription, may use a drug or drug combination that is the generic or brand name equivalent of that named in the prescription, provided that the pharmacist does so with the consent of the patient, unless the prescriber indicated otherwise.

4. Amend Bill 12 to replace the words "Brand Name" with the words "Trade Mark."
5. Add an amendment to the pharmaceutical act to the effect that every person who dispenses a drug pursuant to a prescription shall ensure that the following information is included on the prescription.
 - (a) The name, strength (where applicable) and quantity of the prescribed drug;
 - (b) The identity of the manufacturer of the drug dispensed;

- (c) The signature of the person dispensing the drug.
- 6. Add an amendment to the Pharmaceutical Act to the effect that:
The container in which the drug is dispensed shall be marked with:
 - (a) The identification of the drug, as to its name, its strength and its manufacturer, unless directed otherwise by the prescriber;
 - (b) The quantity of the drug dispensed.
- 7. Add to Bill 12 a definition of the word "equivalent."

An "equivalent" means a product containing a drug or drugs in the same amounts of the same active ingredients in the same dosage form as that directed by the prescription; (and for which the pharmacist has professional confidence in view of the evidence available to him that this product is clinically effective for the ailment.)⁶¹

On Tuesday, July 4, 1972, amendments to the drug substitution legislation were introduced to the Committee by Mr. A.R. Paulley. Mr. Paulley presented the amendments because neither Mr. Toupin or Mr. Miller were members of the Law Amendments Committees. The amendments provided that:

... a doctor could prohibit substitution by designating the name of the manufacturer or by specifying no substitutes. If this was not done the pharmacist had no option but to substitute a lower priced equivalent.

... a Manitoba Drug Standards and Therapeutics Formulary would be established to set out a list of lowest priced generic equivalent drugs and maximum dispensing fees.

... an interchangeable product was defined as "a product containing a drug or drugs in the same amounts of the same active ingredients in the same dosage form as that directed by a physician.

... a prescriber or licensed pharmacist would not be liable to legal proceedings when substituting.

... extensive information was required on the label on the strength, quality and quantity of the drug.

Mr. Toupin later indicated the amendments had been drawn up in consultation with the Progressive Conservatives.⁶²

Inez Trueman, the PC health critic, who had first supported the legislation now indicated to the committee that she felt it was based on the assumption that all drugs had the same bio-availability to the system, and she questioned the assumption. 63

When the amendments to Bill 12 were introduced by the government on July 4th, the PMAC delegation of Dr. Wigle and Don Harper had returned to Ottawa. Amendments had been expected by the PMAC, but they were not all of the form suggested in the PMAC brief.

In a phone call from Rene Charrier on July 4th Dr. Wigle commented that the bill might mean that some companies might choose to direct their marketing efforts elsewhere. The conversation was reported by the Winnipeg Free Press to the effect that the PMAC had threatened that its member companies would boycott Manitoba. On July 7th, Dr. Wigle in a statement, denied that he had threatened a boycott of Manitoba.

The situation was further referred to in an "Open Letter" from Don Harper published in Drug Merchandising (September 1972). He said:

"The amended Bill 12 received royal assent July 11, 1972. At this time, contrary to newspaper stories that "Dr. William Wigle, president of PMAC, made one desperate phone call to Rene Charrier, special assistant to Premier Schreyer" -- it was Mr. Charrier who telephoned Dr. Wigle one evening to advise him of the government's action.

In the course of that conversation Dr. Wigle remarked: "It will remain to be seen how much value would be put on the Manitoba market by research-oriented companies. It is each company's decision whether the size of their Manitoba market will merit the cost of properly servicing that market. If they can't meet the prices they could be forced out of business. In the long run, the patients of the future will suffer, since the research-oriented firms have been responsible for about ninety percent of the new drug discoveries made in the last thirty-five years.

It is important to note that at no time did Dr. Wigle 'Threaten to discontinue all marketing efforts in Manitoba,' nor did he express a 'Threat to boycott the Manitoba Drug Market.' Public

statements that 'Some of the individual members of the PMAC will not act according to the Association's decision,' are irresponsible since the Association had made no decision. In fact, such a decision has not even been discussed at the PMAC board meetings nor at the recent annual meeting of the entire membership.

As Dr. Wagle said: 'It is each individual company's decision whether the size of their Manitoba market will merit the cost of properly servicing that market.'

Mr. Langley Jones, the Registrar of the M.P.A., attended the hearing of the Law Amendments Committee as an observer. He was very surprised when the amendments to Bill 12 were introduced as they had not been anticipated.⁶⁴ Several people indicated that Mr. Jones and Mr. Charrier were not personally compatible individuals. This added to the feeling of frustration Mr. Jones felt about the amendments.⁶⁵

One consequence of the government introduction of the amendments to Bill 12 was for the Manitoba Pharmaceutical Association to formulate a brief and submit it to the government in September 1972.

The introductory comments of the brief indicated:

The Manitoba Pharmaceutical Association has long been an advocate of Product Selection by the Pharmacist and welcomed the principle of Product Selection as it was projected in the original Bill 12 submitted to the Manitoba Legislature.

However, the Manitoba Pharmaceutical Association does take exception to the fact that although they are expected to administer and police the Manitoba Pharmaceutical Act they were not consulted prior to the drafting of the Amendments to Bill 12. The Association objects to a number of the amendments and proposes to the government that at the next session of the legislature they bring forth legislation to amend Bill 12 to bring it more into line with the practical requirements of the Pharmacy Profession and to prevent hardship to the public and needless duplication of time and effort by the Pharmacist and Physician. We will outline our objections and proposed amendments, in order as they appear in Bill 12 as amended and will make a similar presentation to the Manitoba Drug Standards and Therapeutic Committee to seek its endorsements of the Association's recommendations.⁶⁶

The brief went on to suggest a number of amendments to Bill 12 for the next legislative session.

On July 11, 1972 the drug substitution legislation received Third Reading and Royal Assent. It was to become effective upon proclamation by the Cabinet. It would not be proclaimed until after a committee responsible for compiling the list of generically equivalent drugs had completed its task.

The Manitoba Drug Standards and Therapeutic Formulary

Bill 12 could not be proclaimed until the Manitoba Committee of Drug Standards and Therapeutics (MCDST) compiled a formulary.

Members appointed to the committee included J.L. Johnson, a pharmacist; J. Litvack, Director of Pharmacy at the St. Boniface Hospital; I. Schwartz, Director of Pharmacy at The Winnipeg General Hospital; Dr. J.F. Morrison of the Winnipeg Clinic; Dr. Ashley F. Thompson, a Professor at the School of Pharmacy, University of Manitoba; and the Chairman, Dr. I.R. Innes, Pharmacologist at the Winnipeg General Hospital and the University of Manitoba. Members were suggested by the Manitoba Medical Association, College of Physicians and Surgeons of Manitoba, and the Manitoba Pharmaceutical Association at the request of the Minister of Health and Social Development, Mr. Toupin.

The committee was responsible for developing a formulary which listed different categories of pharmaceutical preparations and indicated the drugs within these categories that were equivalent.

The major issue faced by the committee was the criteria to use in deciding what drugs were equivalent. This involved the question of

bio-availability* of different drugs and the effect which this had upon the clinical equivalence** of the drugs. The issue was one that had come up in the study of pharmacy within the previous ten years and for which no real answer existed at the time the committee was appointed. No standards for measuring bio-availability existed, people thought it might be a problem but they were not sure. In other words, it was an unanswered question and one which clouded the issue of whether the concept of developing categories of equivalent drugs for substitution was valid. There was opinion on both sides but no consensus regarding the answer.

Information available to the MDSF included data compiled for the Ontario Parcost program, data from university and independent research on different products, data from the Federal Government Food and Drug Directorate and Health Protection Branch and, data available from companies. The committee did not have research and testing facilities on its own although university and hospital facilities were available. As a consequence much of the work of the committee involved liaison with Ontario Parcost and federal government representatives.

*Biological Equivalents - (Syn. bio-availability) - those chemical equivalents which, when administered in the same amounts, will provide essentially the same biological or physiological availability, as measured by blood levels, and so forth. (Advisory Committee Report, 1972, p. 110.)

Clinical Equivalents - Those chemical equivalents* which, when administered in the same amounts, will provide essentially the same therapeutic effect as measured by the control of a symptom or a disease.

***Chemical Equivalents - Those multiple-source drug products which contain essentially identical amounts of the identical active ingredients, in identical dosage forms, and which meet existing physicochemical standards in the official compendia.

In January and early February 1973, letters were sent to various pharmaceutical manufacturers requesting price, bio-availability and clinical information from them on their products being considered for inclusion in the formulary. There was a mixed company response to the request for these data. Some companies sent requested information promptly and others did not. The delays resulted in part because companies did not have the information, in part because there were no recognized criteria for bio-availability, in part because the companies were in some cases uncertain of the type of information desired, in part because similar information had already been made available to the federal government, and in part because some companies considered such information confidential and did not feel themselves required to release it.

The non-PMAC companies, which depended upon price as the main selling feature of their products were more than anxious to provide all the information necessary in hopes that their products would be included in the formulary.

Because of the perceived problems of obtaining information from PMAC companies a meeting was held in Winnipeg in March 1973, between PMAC representatives, members of the Drug Standards and Therapeutics Committee, and Rene Chartier representing the Paramedical Services group in the provincial government.

There were actually two meetings held the same day. The first meeting of PMAC representatives and the MCDST was a consideration of certain drugs to be included in the Formulary, some of the problems encountered by the committee in obtaining information and how that situation could be improved. The second meeting, with government

representatives, was concerned with whether it would be possible for the companies to lower prices of drugs in Manitoba.

In the June 1973 election campaign the Manitoba Pharmaceutical Association wrote a letter to Premier Schreyer which was critical of government election pronouncements concerning the drug substitution issue. They received a very critical reply from the Premier.⁶⁷

As of August 1973, Bill 12 had not been proclaimed. A comment from the Honourable Saul Miller was that, "If we are going to wait for full evidence on the bio-availability issue before proclaiming the act we may wait forever."⁶⁸

Work of the MCDST was completed by mid-October 1973. The completed formulary gave equivalent categories for fewer drugs than had originally been anticipated. The act was proclaimed and went into effect on February 1, 1974.

Subsequent Developments

In a July 6, 1974 article in the Winnipeg Tribune, Joan Bowman, in a feature article on drug substitution legislation commented that,

Manitoba's mandatory drug-substitution scheme, a subject of prolonged legislative debate when it was on the 1972 order paper, has elicited remarkably little controversy since it went into effect in late January.

Aside from an initial brouhaha over lack of available stocks of lowest priced prescription drugs, little has been heard from pharmacists or the public over the plan. Even manufacturers have contented themselves, publicly at least, with attacks from afar on the concept of drug equivalency.⁶⁹

In commenting further on the plan Ms. Bowman said that the vast majority of physicians did not designate "no substitution" on their prescriptions.⁷⁰

She said that,

what is exceedingly encouraging about the Manitoba plan -- and what accounts for its low public profile -- is that the NPD government and branches of the health-care profession have worked hard at working together.⁷¹

She quotes Mr. René Chartier as saying that,

perhaps we've shifted our opinions about pharmacists. We've got a better understanding of pharmacists' working conditions.⁷²

A new formulary increasing the number of preparations from 130 to 194 went into effect in early July 1974.⁷³ Pharmacists overall supported the scheme, however, there were some questions about the costs of having provincial civil servants do inspections in addition to the M.Ph.A. representatives and federal government officials.⁷⁴

The prospect of central purchasing and distribution of drugs in Manitoba was still a very real future possibility. It would be undertaken by either a provincial government agency or the Manitoba Society of Professional Pharmacists.⁷⁵

On January 1, 1975 a universal pharmacare scheme came into effect in Manitoba. The program was designed to reimburse a family for eighty percent of its prescription expenses over fifty dollars.

Footnotes

¹ NDP campaign literature from the 1969 Manitoba provincial election.

² Report of the Advisory Committee on Central Drug Purchasing and Distribution, Province of Manitoba, April 1972 (p. 5.)

³ *ibid.*, p. 5.

⁴ *ibid.*

⁵ *ibid.* (include footnote from Klass committee report p. 73).

⁶ *ibid.*, pp. 9-10.

⁷ *ibid.*

⁸ *ibid.*, pp. 9-10.

⁹ *ibid.* (p. 90), Professional dispensing fees were not included in the estimated sales of \$9.8 million. These fees were estimated to be \$6.6 million.

¹⁰ *ibid.* (p. 5), When reviewed by the PMAC in the summer of 1974 it was indicated that the figure should be \$22 million).

¹¹ PMAC representative.

¹² PMAC information sheet.

¹³ *ibid.*

¹⁴ Interview with Don Harper.

¹⁵ Interview with Mr. Rene Chartier, August 1973.

¹⁶ U.S. Senate Report, 1961, No. 448, p. 2.

¹⁷ *ibid.*, p. 3.

¹⁸ *ibid.*, p. 4.

¹⁹ Report of the Restrictive Trade Practices Commission, 1963 (p. 3).

²⁰ *ibid.*, pp. 525-526.

²¹ *ibid.*, p. 361.

²² *ibid.*, p. 359.

²³ Ibid., p. 442.

²⁴ Ibid., pp. 437-439.

²⁵ Ibid., p. 492.

²⁶ Second (Final) Report of the Special Committee of the House of Commons on Drug Costs and Prices, Queens Printer, Ottawa, 1967 (p. 5).

²⁷ Special Committee of the House of Commons on Drug Costs and Prices, Minutes of Proceedings and Evidence, February 7, 1967; p. 2181.

²⁸ Op. cit., Second (Final) Report of the Special Committee (p. 5).

²⁹ Ibid., p. 12.

³⁰ Op. cit., Special Committee ... Minutes and Proceedings, p. 2101.

³¹ Ibid., p. 112. This paper is included in Appendix C as Exhibit C.1. It is a good presentation of the PMAC point of view.

³² Papers from the Symposium on the Physiological Equivalence of Drug Dosage Forms, Queens Printer for Canada, 1970, Cat. No. H44-2969, pp. 1-2.

³³ Ibid., p. 67.

³⁴ The full text of Mr. Harper's remarks is included in Appendix C as Exhibit C.2.

³⁵ Interview with Rene Chartier, August 1973.

³⁶ Report of the Advisory Committee on Central Drug Purchasing and Distribution, Province of Manitoba, April 1972 (p. xi). The complete terms of reference are included in Appendix C as Exhibit C.3.

³⁷ Ibid.

³⁸ Information received in an interview with Rene Chartier, August 1973.

³⁹ Mimeographed material received from Manitoba Pharmaceutical Association.

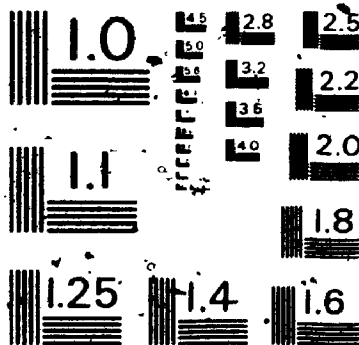
⁴⁰ Winnipeg Free Press, February 9, 1971.

⁴¹ A list of groups which supplied information to the Committee is included in Appendix C as Exhibit C.4.

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MICROCOPY RESOLUTION TEST CHART
NATIONAL BUREAU OF STANDARDS-1963-A

42 Interview with Don Harper, former PMAC Director of Public Relations, August 1973.

43 Excerpts from the PMAC Brief are included in Appendix C as Exhibit C.5.

44 Excerpted from Report of the Advisory Committee on Central Drug Purchasing and Distribution, Province of Manitoba, April 1972, pp. xv ... xix.

45 Debates and Proceedings of the Manitoba Legislature, March 9, 1972, p. 5.

46 Excerpt from newsletter material received from PMAC.

47 Ibid.

48 The letter is included in Appendix C as Exhibit C.6.

49 Interview with Mr. René Chartier, October 1973.

50 Ibid.

51 Copy of the initial bill received from the Manitoba Pharmaceutical Association.

52 Interview with Mr. Rene Chartier, October 1973.

53 Debates and Proceedings of the Manitoba Legislature, July 5, 1972, p. 3827.

54 Ibid., May 17, 1972, p. 2101.

55 Ibid., June 20, 1972.

56 Ibid., June 20, 1972, p. 3146.

57 Ibid., June 21, 1972, pp. 3147, 3148.

58 Ibid., May 17, 1972 (p. 2102).

59 "Manitoba Medical Association - Submission to the Law Amendments Committee Regarding Bill 12, An Act to Amend the Pharmaceutical Act," June 29, 1972.

60 Excerpts of a memo sent to PMAC members by J.D. Harper.

61 Ibid.

62 Winnipeg Free Press, July 4, 1972.

63 Ibid..

64 Interview with Mr. Langley Jones, July 1973.

65 This situation was pointed out by a number of industry observers including both industry and government representatives.

66 "A Submission Proposing Amendments to Bill 12 under the Manitoba Pharmaceutical Act to the Department of Health and Social Services, Province of Manitoba, by the Manitoba Pharmaceutical Association," September 1972 (p. 1).

67 Interview with Rehe Chartier, August 1973.

68 This interesting exchange of correspondence is included in Appendix C as Exhibit C.8.

69 Joan Bowman, Winnipeg Tribune, "Focus/Comment," July 6, 1974 (p. 21).

70 Ibid.

71 Ibid.

72 Ibid.

73 Ibid.

74 Ibid.

75 Ibid.

BUSINESS MANAGERS' INFLUENCE ON GOVERNMENT:
CASE STUDY OF PARTICIPATION IN THREE PROCESSES
OF GOVERNMENT POLICY FORMULATION IN MANITOBA

by

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Submitted in partial fulfillment
of the requirements for the degree of
Doctor of Philosophy

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London, Ontario
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Chapter 8

EVALUATION OF AN ENVIRONMENT UPON BUSINESS PARTICIPATION IN FORMULATION OF THE DRUG SUBSTITUTION LEGISLATION

Introduction

Analysis of the drug substitution case indicated that drug industry managers had a negligible effect on the changes which occurred in Manitoba. There were two general reasons for this. The first was the government's determination to proceed with drug substitution, a factor not controllable by business managers. The second was a failure by drug industry managers to participate effectively in terms of the stage of their participation and the persuasiveness of their arguments. Business participation was characterized as being decided upon in an unplanned fashion, and business participants were not regarded as being particularly well qualified for participation in the governmental process.

Changes in the Provincial Environmental System

Initially drug companies supplied drugs to pharmacies and attempted to get doctors to prescribe their company's medication. The doctor would write a prescription, often using the brand name for the drug and the patient would purchase it from a pharmacist. The strategy of many drug companies was to develop new products and then

stress the high and consistent quality of their product using advertising and detail men. Many doctors did prescribe drugs on this basis as evidenced by the comments of Drs. Schecter and Reardon to the Restrictive Trade Practises Commission. The Manitoba government was primarily concerned with regulation of pharmacists which included things such as establishment of fee schedules and labelling requirements, often in conjunction with the Manitoba Pharmaceutical Association.

Passage of the drug substitution legislation had the effect of increasing the governmental role. Whereas, there had previously been no provincial government involvement respecting product selection, the role of the province became one of specifying what medications were to be dispensed and the price at which they were to be dispensed. This effectively neutralized much marketing effort by the drug companies as purchases came to be based upon price. The drug companies, therefore, were deprived of some of the marketing variables which had previously been available to sell products. The pharmacists were really not affected greatly although some potential for lowering inventory carrying charges resulted.

The public continued to have no voice in product selection. Previously the doctor had been the authority regarding the specific type of medication and now the government specified it.

The long run detrimental effects on research and development expenditure feared by drug companies were not evident. It must be kept in mind, however, that Manitoba is a very small portion of the total market served by drug companies. The effect of a drug substitution program in Manitoba would be very minor in terms of

overall research and development expenditures compared to what the effects could be if drug substitution became a very widespread factor.

Influence on System Changes by Business Managers

Compared to automobile insurance, drug substitution was a relatively smaller issue from social, political and industry points of view. However, the influence of business managers on the final system outcome was negligible, as it had been in the automobile insurance situation. The effect of participation by drug industry managers was negligible for two reasons. Firstly, a government determination to pass the legislation with as few changes as possible, and secondly a failure of industry representatives to present the industry case in the most appropriate manner.

The government attitude to the drug industry, developed from the NDP interpretation of public opinion, was exhibited in the way the legislation was introduced with limited opportunity for debate. The basic attitude of the government was very important in passage of the legislation and it was in no way controllable by business managers. The failure of business managers to present the industry case in the most appropriate manner, the second reason for failure, stemmed from a lack of understanding of the governmental process and attitude and consequently, an inability to take appropriate action respecting the governmental process.

The Process of Government Policy Formulation

An understanding of the process of government policy formulation was important in understanding both the pressures for drug substitution from government representatives and the ineffectiveness

of the controllable actions of business managers. It was observed that there were a number of stages to the process, and that these were well described by the composite model of (stages of the process of government policy formulation outlined in the theoretical chapter of the thesis. It was also observed that a political model of the policy formulation process provided the most insight for describing most of the stages of the policy formulation process, particularly where the situation was new.

Stages in the Process of Government Policy Formulation

The model of stages of the process of governmental policy formulation again provided a useful basis for examining the chronological development of the legislation and for assessing the point of action by business representatives. A short summary of how the drug substitution case fits with respect to the model is outlined below.

Societal Need (1940-1950)

The basis for consideration of drug prices and the drug industry as problems arose in the period subsequent to World War II. There was a proliferation of new drugs, and drug companies made large amounts of money on successful new product introductions.

Recognition of Need in Manitoba (1958-1962)

There was concern in some quarters that pharmaceutical companies controlled the market through their research and development and marketing methods. The fact that pharmaceuticals were life

supporting contributed to public concern about leaving control of such an important industry in private hands. The most notable example of recognition of a need, or concern, regarding practices in the pharmaceutical industry was the investigation conducted by the Kefauver Committee. In Canada, an investigation into drug industry practices was started in April 1958 by the staff of the Restrictive Trade Practices Commission, and was subsequently published as the Green Book. Subsequent to these enquiries there were a number of others. These included the hearings of the Restrictive Trade Practices Commission and the Harley Committee among others. Activities in other jurisdictions included things such as the 1962 drug substitution legislation in Alberta, the 1969 compulsory licensing legislation of the federal government and the 1970 Parcost program in Ontario.

Articulation of Demand for Action in Manitoba (1969)

In 1969 drugs were mentioned in NDP campaign literature, but primarily in the context of a pharmacare program to make prescription drugs available to all.

Decision to Proceed with Legislation of Some Type (Early 1970)

The decision to proceed with some type of legislation aimed at lowering the cost of drugs was apparently made in early 1970 after René Charrier came to work as an executive assistant to Premier Schreyer. The specific details of the program had not, however, been worked out at that time. Ideas such as pharmacare, centralized governmental purchasing and distribution, local manufacturing and

substitution were all in Rene Chartier's mind but the exact nature of how to proceed with them had not been decided upon.

Determination of the Nature of the Legislation

In February 1970 a feasibility study to look into establishment of a crown corporation to manufacture drugs in Manitoba was announced. In late 1970 it was decided to have a committee review industry problems, concentrating on centralized purchasing and distribution of drugs. The committee was announced on January 29, 1971 and its report was released on March 9, 1972. The Throne Speech on April 7, 1971 forecast a program to reduce the cost of prescription drugs and the Throne Speech on March 9, 1972 indicated that legislation would be introduced to permit substitution of prescription drugs.

Drafting of Legislation

This was a minor activity with this legislation.

Legislative Consideration

First Reading of Bill 12 was on April 12, 1972.

Second Reading of the bill was on April 17, 1972. The approach taken was to initially table a very weak piece of legislation (similar to that in Alberta) with the intention of letting the opposition criticize it and later introduce the desired amendments.

This was done to not arouse an industry lobby any sooner than necessary.

Law Amendments Committee met from June 29 to July 4, 1972.

After hearing submissions, the planned amendments were introduced on July 4th. The amendments were controversial primarily because they

provided that it was mandatory for a pharmacist to substitute drugs.

Third Reading debate began on July 5th. Royal Assent was given on July 11.

Formulation of Regulations (August 1972 - January 1974)

Medical groups in Manitoba, including the M.Ph.A. were asked to recommend committee members to establish the list of substitutable drug products. The committee relied heavily upon Ontario and federal government sources in establishing its formulary. They also obtained information on some products from industry sources. The formulary became effective in January 1974. The formulary was to be revised subsequently on a regular basis.

Observations Regarding Stages of the Process

Observation of the stages in the process of formulating the drug substitution legislation supported the observations with respect to the stages in the process of formulating the automobile insurance legislation. The model was appropriate and useful as a mechanism for summarizing the chronological sequence of events. There definitely were different stages with different characteristics, spread over a period of time.

Nature of the Decision Process at Various Stages of the Process of Governmental Policy Formulation

The drug substitution legislation was examined stage by stage to determine which of the three alternative approaches to description of the process of policy formulation (i.e., rational, organizational

or political) provided the greatest insight into the nature of the process.

Societal Need

The societal need which subsequently resulted in attention being paid to drug companies and drug prices arose as a result of fundamental environmental changes. There was no conscious decision making at this stage so it was inappropriate to discuss it in terms of the rational, organizational or political models.

Recognition of Need

The outcome of this stage of the process was a number of groups, each with different impressions of the nature of or seriousness of a problem. There were decision makers within each group. The Restrictive Trade Practices Commission and the Kefauver Committee were examining the industry for evidence of non-competitive behaviour and they satisfied themselves that the industry fell short in some areas. Industry managers, however, defended their position and, in effect, defined the problem as the amount of government and public examination and criticism of the industry.

The way in which the problem was defined by different groups suggested their varying goals and interests. This was typical of the political model of the process of governmental policy formulation.

Articulation of Demand

As with the recognition of need, the demands articulated by various groups also differed. They depended upon the interests and goals of the groups. Government groups such as the Kefauver Committee

and the Restrictive Trade Practises Commission articulated a position calling for a reduction in the price of drugs. The industry replied by articulating a position defending current industry practice.

Testimony to the Restrictive Trade Practises Committee provided a good example of this. Although they had not come head to head in Manitoba, they had in these other jurisdictions so the positions of each group involved were quite well outlined. The different positions formed the basis for future bargaining.

The stage was best understood in terms of the political model of the process of governmental policy formulation.

Decision to Proceed with Legislation

The outcome of this stage was the decision to go ahead with drug substitution legislation as the basis for future actions in the drug area and to use the Klass Committee as the vehicle for establishing the desirability of such legislation. The stage stretched over a period of time and involved Rene Chartier, Rene Toupin and Len Evans. The decision makers regarding the concept of the Klass Committee were Rene Toupin, Len Evans and Rene Chartier.

Appointments to the review committee were made by Rene Chartier, Rene Toupin and a group in the cabinet. The appointment of committee members was certainly best understood as a political process. They began with a limited list of seven names put together by Rene Chartier, but after others added on people they felt were important twelve members were included.

Determination of the Nature of the Legislation

The outcome at this stage was a decision to introduce mandatory substitution legislation and to do it by initially introducing weak legislation and then amending it to obtain the desired features. The outcome involved determination of both a policy and a sequence of moves for implementing it.

The process by which this outcome was arrived at was best understood as political but it was well controlled by the primary determiners of the outcome, Saul Miller and Rene Chartier. They were, in effect, able to gain acceptance of their approach by others. As Rene Chartier stated, when "acting in a political atmosphere regardless of whether it was gaining public acceptance of a plan or getting the Cabinet to agree on a desired course of action ... the proper approach was to first decide what you wanted to do and then work back from there to determine what had to be done to gain acceptance of the plan."

The Klass Committee considered the question of drug substitution. There was considerable discussion about a mandatory substitution feature.

After the legislative details were formulated the proposal was presented to cabinet and the NDP caucus. At this point there was again considerable discussion about the mandatory substitution feature. Some MLA's in caucus argued for eliminating the right of a doctor to prevent substitution if he desired.

Once again, the political decision process provided the best description of this stage. It should be noted, however, that the stage provided a good example of how the primary determiners of

outcome were able to effectively manage the process and gain acceptance of their legislation.

Drafting the Legislation

This was a very simple procedure in this case, as the bill was so short. Rene Chartier laid out the proposals and they were drafted by someone from the Attorney General's Office.

Legislative Consideration

First Reading involved introduction of the weak bill to the Legislature. It was a formal, standard move. It was best understood in terms of the organizational approach.

At Second Reading the outcome was, as expected, passage and approval in principle of the legislation. There was nothing irregular or out of the ordinary about the debate. It was best understood in terms of the political model.

Committee and Amendments. At this stage the process was also best understood as a well controlled political approach. Differing views were expressed but the outcome was determined by the majority of NDP members on the committee.

Third Reading debate on the bill as amended also had the expected outcome of passage of Third Reading. The process was best understood in terms of the political model because it would not have passed in the form it did without the power of the NDP majority.

Because the legislative stage of this bill was straight forward and routine it could have led to the conclusion, and in fact initially did, that it was best understood in terms of the organizational model. However, while the short run nature of the process was

organizational there were long run political considerations involved. The major observation was that it did appear to be a routine organizational process, while in reality, if it had not been so well managed the outcome could have been different.

Formulation of Regulations

Examination of the formulation of regulations can be undertaken at two levels. The first is to consider the government and the committee as a group in which case the political model provides useful insights. In this case there is some difference of opinion with the government desiring to have a published formulary as soon as possible, but with the committee wanting to take whatever time was required to do a complete and thorough job. Some difference of priorities and opinion existed here, although the government, realizing the necessity of sacrificing time to accuracy in so important an issue, deferred to the committee's wishes for the time period.

Viewed from the perspective of the Drug Standards and Formulary Committee the process is best understood according to the rational model. There was an explicitly laid out set of goals. The committee's task was to consider a number of alternative drugs and select groups which were substitutable with safety.

Observations, Comments and Tentative Conclusions on the Process of Governmental Policy Formulation as Suggested by the Drug Substitution Legislation

Analysis of the drug substitution case indicated that outcomes of the various stages were different and that the primary determiners of outcomes and major influencers changed from stage to stage (Exhibit

8.1). The primary decision group remained more constant throughout this process than with the automobile insurance legislation, but there was not the degree of controversy surrounding this legislation there was with the previous. Therefore, there was not a need for others such as the Premier to involve themselves directly.

The PMAC and M.Ph.A. were largely kept out of the process as influencers at the "Decision to Proceed with Legislation" and the "Determination of the Nature of Legislation" stages by choice of the government who undertook their considerations and deliberations without asking for representations from the industry. This implies the need for business representatives to develop and keep open channels to express their positions.

One feature in the drug substitution case was the distinction between governmental decision about what to do and how to do it. This is similar to the distinction between strategy formulation and implementation in business policy. There was evidence of activity directed toward both what to do and how to get it accepted at the "Decision to Proceed with Legislation" stage, at the "Determination of the Nature of Legislation" stage and at the beginning of the "Regulation" stage.

Overall the political model provided the greatest insight into the process (Exhibit 8.2). Beginning with a number of different participants with different positions, these participants used the resources at their disposal to gain acceptance of their particular points of view. The outcome of the process was most similar to the position advocated by the group with the greatest power.

The power of the government vis a vis other participants was

Exhibit 8.1

Outcomes, Influencers and Decision Makers at Each Stage of the Process of the Drug Substitution Legislation

Stage	Outcome of Stage	Primary Determiner(s) of Outcome	Major Influencers
1. Societal Need	A latent need		
2. Recognition of Need	Restrictive Trade Practices Commission and Kefauver Committee were the first to detail the need. Industry did not perceive the situation in the same terms. Outcome: a number of groups with different impressions of the nature of/or seriousness of the problem.	People within each group who define the problem.	Others in the same group and other groups.
3. Articulation of Demand	Calls by NDP in Manitoba for lower priced drugs based on pharmacare, central purchasing and distribution, etc. Industry argued against the proposal for substitution. Outcome is a number of groups with a position: forms the basis for political bargaining.	People within each group.	Others in the same groups, researchers, etc.
4. Decision to Proceed with Legislation	A decision to go ahead with drug substitution as the basis for further actions in the drug area; and to introduce legislation after the Klass Committee report was published.	Rene Toupin, Len Evans, Rene Chartier	Cabinet.



Stage	Outcome of Stage	Primary Determiner(s) of Outcome	Major Influencers
5. Determination of the Nature of the Legislation (including amendments)	A decision to introduce mandatory substitution legislation; and to do it by initially introducing weak legislation and then amending it to read as desired (i.e., what to do and how to do it, or formulation and implementation).	Saul Milles, Rene Chartier.	Rene Toupin Cabinet, Klass Committee, expected reaction from drug industry.
6. Drafting of Legislation	Initial draft for 1st reading.	Chartier.	Alberta legislation, Miller
7. Legislative Consideration	<p>Tabling the Bill.</p> <p>Approval in principle and agreement among all parties of desirability of lower drug prices.</p> <p>Bill considered and amended to introduce mandatory substitution principle and reported.</p> <p>Bill passed.</p>	Legislature.	PMAC, M.Ph.A.
1st Reading			
2nd Reading			
Committee		MLA's.	PMAC, M.M.A.
3rd Reading		MLA's	PMAC, M.Ph.A.
8. Regulations	Publication of a book of substitutable products.	Formulary Committee	PMAC Companies, M.Ph.A. Generica Companies, Ontario Parcost people, Federal Food and Drug people. Manitoba government (Miller, Chartier).

Exhibit 8.2

Basic Nature of the Process of Governmental
Policy Formulation at Various Stages

Stage	Basic Nature of Process		
	Rational	Organizational	Political
1. Societal Need			
2. Recognition of Need			*
3. Articulation of Demand			*
4. Decision to Proceed with Legislation			*
5. Determination of the Nature of Legislation			*
6. Drafting of Legislation		*	
7. Legislative Consideration			
1st Reading		*	
2nd Reading			*
Committee			*
3rd Reading			*
8. Regulations	*		*

derived primarily from bargaining advantages inherent in the formal position and authority. It was also derived from the willingness and skill of government representatives in using their bargaining advantages, and a willingness on the part of the other participants to allow the government to take action.

The degree to which the group responsible for the legislation was able to guide it through the various stages of the process in the form desired was interesting. It indicated that one of the primary responsibilities of an initiator of action was to undertake to minimize the political risks of the process by such things as selecting participants with common goals and finding the proper time and settings for interactions. The efforts expended to minimize political conflict suggested that the potential for such conflict is always present and that it is a concern for government.

Actions by Business Managers

This section examines the nature of actions by pharmaceutical industry managers in relation to the process of government policy formulation outlined above. The point(s) of the process at which industry actions were taken is considered as is the persuasiveness of industry managers' actions. It is observed that industry actions were relatively balanced among various points of the process. It is also observed that there were some effective and some ineffective actions by business managers, with the primary factor distinguishing these being whether arguments were stated in terms that were meaningful and persuasive to the person to be influenced.

Point of Action by Business
Representatives

Summarization of the actions by the M.Ph.A. and the PMAC (Exhibits 8.3a and 8.3b) indicates that their actions were, in fact, balanced between the various stages and audiences. They had a good deal of contact with the bureaucracy.

However, as with automobile insurance, there were limited industry attempts to deal with the problem at early stages of the process. This was especially the case with the PMAC who took seven of their nine recorded actions during the last two stages of the process.

An interesting point to note about the Manitoba Pharmaceutical Association was the change in the nature of their relationship with government. Prior to the NDP being elected they had been the primary source of information for governmental drug policy. In effect, they acted as an arm of government. The NDP government, when it came to power changed the nature of the relationship and did not allow participation. The interpretation of what points in the process the M.Ph.A. took action at must be in light of that background.

The M.Ph.A. reacted to being cut off by the government by attempting to get public support for their position with their rally at the Viscount Gort before they settled back to more normal activities.

The volume of activity by the M.Ph.A. was not as great as for the business representatives participating in the automobile insurance process, but actions were more balanced over a wider spectrum of points in the process. There was more of a balance between activities directed at politicians and bureaucrats and also over the various stages of the process.

Exhibit 8.3

Summary of Actions by Drug
Industry Representatives

(a) Recorded Number of Actions directed at various targets

	Total Recorded Actions	Bureaucrats	Politicians- Bureaucrats	Politicians	Public- Politicians	Industry, Pharmaceuticals Doctors
Manitoba Pharmaceutical Association	12	3	2	5	2	
Pharmaceutical Manufacturers Association of Canada	9	5	1	2		1

(b) Stage of Action

	Total Recorded Actions	(1) Need	(2) Recognition	(3) Articulation	(4) Decision to Proceed	(5) Determine Nature of Legislation	(6) Drafting	(7) Legislative Consideration	(8) Legislations
Manitoba Pharmaceutical Association	12		1		3	1	1	3	4
Pharmaceutical Manufacturers Association of Canada	9			1		1		4	3

Source:

Appendix D, Exhibits D.1 and D.2.

There appeared to be an underlying set of policies or assumptions which guided the actions of industry managers. There was a continuing effort by drug industry managers to work with the government on an amicable, co-operative basis.

Effective and Ineffective Actions

There were some actions taken by pharmaceutical industry managers that achieved the results desired, and there were some actions that were ineffective. The primary distinguishing feature between effective and ineffective actions was whether they put arguments in terms that were important and persuasive to the person, or group, to be influenced.

Examples of effective action selected for examination were:

- (a) The mass protest meeting held by the Manitoba Pharmaceutical Association at the Viscount Gort Motor Hotel on February 28, 1971.
- (b) Withholding of information from the formulary committee by some members of the PMAC.
- (c) The emphasis upon the bio-availability theme by the PMAC in their campaign against the bill.

Examples of ineffective action examined included:

- (a) The brief presented to the Law Amendments Committee of the Legislature by the PMAC.
- (c) The letter sent to Premier Schreyer by the M.Ph.A. during the June 1973 election campaign.

Effective Action

The mass protest meeting held by the M.Ph.A. was viewed as an effective action because it encouraged the government to contact the association about subsequent appointments to committees. For example, when the formulary committee was appointed the M.Ph.A. was asked to

recommend people for membership.

This was viewed as an exercise of power by the M.Ph.A. It was designed to influence the government by emphasizing the public support for the M.Ph.A. The bargaining advantages emphasized by the M.Ph.A. were their public support, the justice of their cause and the fact they felt they had a right to participate and be consulted.

In other words, the effectiveness of the action was explainable as an exercise of power which involved formulation of an argument in terms that were important to the people to be influenced and persuasive to them. The rally came just after the automobile insurance issue and the government would have been more sensitive to this type of pressure than usual at that time.

The withholding of information from the formulary committee by some members of the PMAC and the emphasis upon the bio-availability theme were regarded as effective because they delayed publication of the first formulary somewhat and because less drug categories were included in the first formulary than had been planned.

The pharmaceutical companies had a bargaining advantage that was important to the formulary committee in their decision process because the committee couldn't make a decision as easily, or as soon, without the product information from the companies. The companies had a bargaining advantage and they demonstrated a willingness to use it.

Biological Equivalence. The argument of lack of product equivalence in terms of bio-availability was also effective in slowing down the procedure of the formulary committee. This is because bio-availability was an issue about which very little was known and it had

important implications for a listing of equivalent drugs. By raising the issue in terms of their bargaining strengths of knowledge and reputation and because there was scientific concern about the issue the Pharmaceutical Manufacturers Association of Canada had an influence on delaying the formulary somewhat.

Ineffective Action

The brief presented to the Law Amendments Committee of the Legislature by the PMAC was regarded as ineffective because it did not have the effect of influencing the final legislation in the manner desired by the PMAC. Whereas the PMAC advocated allowing substitution if the doctor indicated it was permitted and the patient gave his consent, the legislation made substitution mandatory unless the doctor specified otherwise in his own handwriting.

Their argument was not persuasive because the government had already made the decision on what the amendments were to be, and any criticism of the original Bill 12 only provided justification for introduction of amendments.

The main thing about the amendments that was not anticipated was the mandatory substitution feature. The PMAC did not have advance knowledge of this feature so they had no way of really combatting it.

The only bargaining advantage employed by the PMAC was their presence and their arguments. These were not sufficient to persuade the committee or the group responsible for introducing the amendments to leave the legislation weak. In fact, the PMAC delegation of Dr. W.W. Wigle and Mr. D. Harper left Winnipeg to return to Ottawa before the legislation was passed.

The letter to Premier Schreyer from the M.Ph.A. was an effort to apply political pressure during the June 1973 election campaign. The letter pointed out some problems with the government drug program. It was ineffective because Mr. Rene Chartier and Premier Schreyer were able to turn it around and use it to the government's advantage, and because it caused sufficient ill feeling between the M.Ph.A. and the government that communication between the two groups was very difficult for a number of months after the exchange of letters.

The action was ineffective in either getting the government to modify its approach to the drug industry or in embarrassing the government politically. The M.Ph.A. did not possess the public support necessary for it to hurt the government. The government's reply indicated that they did not perceive the association's bargaining advantages as formidable. In a situation where it came to appealing for public support, politicians appeared to have an advantage over business representatives -- both in terms of public credibility and the ability to convincingly present their case. Moreover, it appeared that public criticism of a government was likely to result in a subsequent public offensive against the criticizing group by the government.

Comments on Effective and Ineffective Action

The distinguishing feature between effective and ineffective actions was the ability to put an argument in terms that were important and persuasive to the other person. The power possessed by the influencer with respect to the influencee was one factor determining how persuasive the message would be to the person being influenced.

Inputs to Business Actions

To this point it has been indicated that changes took place, that business managers were obviously unable to prevent them, and that some of the reasons for business ineffectiveness were because they did not participate at all points in the process and when they did participate actions were not always effective.

This section tentatively explores reasons why business actions were less adequate than they might have been. It looks at the characteristics of business managers and their particular qualifications for participation in the process of government policy formulation. Also examined is the process by which business actions were decided upon to determine if actions were planned or unplanned.

Background for Participation in the Process of Government Policy Formulation

The pharmaceutical industry was classified as a high technology industry. The people in the industry had higher levels of education than those in the insurance industry and they had more experience working in the governmental process than did auto insurance industry managers.

There was a change in the relationship of the industry to the government when the NDP took office which was resented by representatives of both the PMAC and the M.Ph.A. especially the latter. The Registrar of the M.Ph.A., Langley Jones, was especially critical of the government and its chief civil servant in the drug area, Rene Chartier. Mr. Chartier was also critical of Mr. Jones. This was not a desirable situation from the M.Ph.A. point of view.

The PMAC had experience dealing with a number of governments and had full time people working for them. They were located in Ottawa, however, and not in Manitoba. Neither Dr. W. Wigle, or Mr. Don Harper the two PMAC representatives primarily involved with the Manitoba situation had any formal training for dealing with government problems.

Planned or Unplanned Actions

The actions examined for whether they were formulated in a planned or unplanned fashion included:

- (a) The letter to the Manitoba Medical Association by the PMAC.
- (b) The brief presented to the Law Amendments Committee by the PMAC.
- (c) The letter sent to Premier Schreyer by the Manitoba Pharmaceutical Association during the June 1973 election.

PMAC Letter to the Manitoba Medical Association

Formulation of this action was best understood as an organizational process. The PMAC was involved in a number of different issues in a number of different jurisdictions and they had a background of experience in dealing with various governments. One of the PMAC techniques often used in dealing with a large number of people over a wide area had been mailings of a variety of material supporting the PMAC position. The letter to the doctors of Manitoba through the Manitoba Medical Association was best understood as a standard organizational response to a problematic situation. This fit the criteria for unplanned business action.

PMAC Brief to the Law Amendments
Committee

This action was also best understood in terms of the organizational model. The presentation of briefs was nothing new for the PMAC. So when the request came from Manitoba to present a brief the response was to sit down and prepare it in the same manner as had been done for other jurisdictions. Again this was classed as an unplanned way of deciding upon action. It should be noted that this method of formulation of business action did not result in a good forecast, or anticipation, of what amendments the government would introduce.

Letter to Premier Schreyer from
M.Ph.A.

The formulation process leading to this action was best understood in terms of the political model. There was a good deal of discussion and disagreement over whether the letter should be sent. Some individuals were very opposed to it on the grounds that it would have a harmful effect in relations with the government.

The process was one of different people with different positions on the issue. There was discussion and controversy ultimately resulting in a decision to send the letter.

This action fits the criteria specified for unplanned actions.

Comments on Planned and Unplanned
Actions

The actions outlined and commented upon support the hypothesis that business actions respecting the process of governmental policy formulation were unplanned rather than planned.

The processes leading to actions were best understood in terms

of the organizational model where, the group (e.g., the PMAC) had previous experience in dealing with the government in similar types of situations. They were best explained in terms of the political approach where the situation was new (e.g., the M.Ph.A. situation).

Summary

This analysis of the drug substitution case supported the findings from the analysis of the automobile insurance case. It indicated that ~~there had~~ definitely been changes in Manitoba and that in these changes the government had assumed control of functions previously the exclusive domain of business managers. The analysis indicated ineffectiveness by business managers to prevent the changes. One of the reasons for business ineffectiveness was governmental determination to proceed with drug substitution and very skillful direction of government moves by Messrs. Saul Miller and Rene^g Chartier. Another reason was failure of business managers to do all they could have. This was evidenced by a failure of business managers to take action of all points of the process of government policy formulation and a tendency to take actions which were not persuasive. Some of the apparent reasons for lack of business effectiveness were a lack of adequate training for, or experience in, participation in the process of government policy formulation and a failure to plan adequately before taking action.

Chapter 9

MANITOBA MINERAL POLICY

Introduction

This case dealt with a major phase of the mineral policy in Manitoba. From 1970 to the present the emphasis of government policy changed from one of support and concession to the industry to one which proclaimed that the public was not receiving an adequate share of the returns from the industry. The new policy was evidenced in a number of governmental moves including: increases in mining royalties in 1970; allocation of \$500,000 for establishment of a mineral exploration company in 1971; formation of the Leaf Rapids Development Corporation in 1972; the Kieran's Report in 1973; passage of legislation to further increase royalties, introduction, and subsequent withdrawal of legislation to relate royalties to economic rent and regulate the grade of ore mined, and introduction of new regulations to provide for optional government participation in company exploration projects and higher lease costs in 1974; and reintroduction of legislation to tax economic rents in 1975. This case concentrates upon government activity and business attempts to influence this activity in 1973, 1974 and 1975. Events previous to that time are discussed to provide a background for increased understanding of these developments.

The next section discusses characteristics of various

government and industry participants. Following that is a section which briefly outlines the history of mineral resource policy in Manitoba. The next section outlines the sequence of governmental moves and industry responses to them. The final section is a statement of the relative positions of the various participants at the end of the process.

The Participants

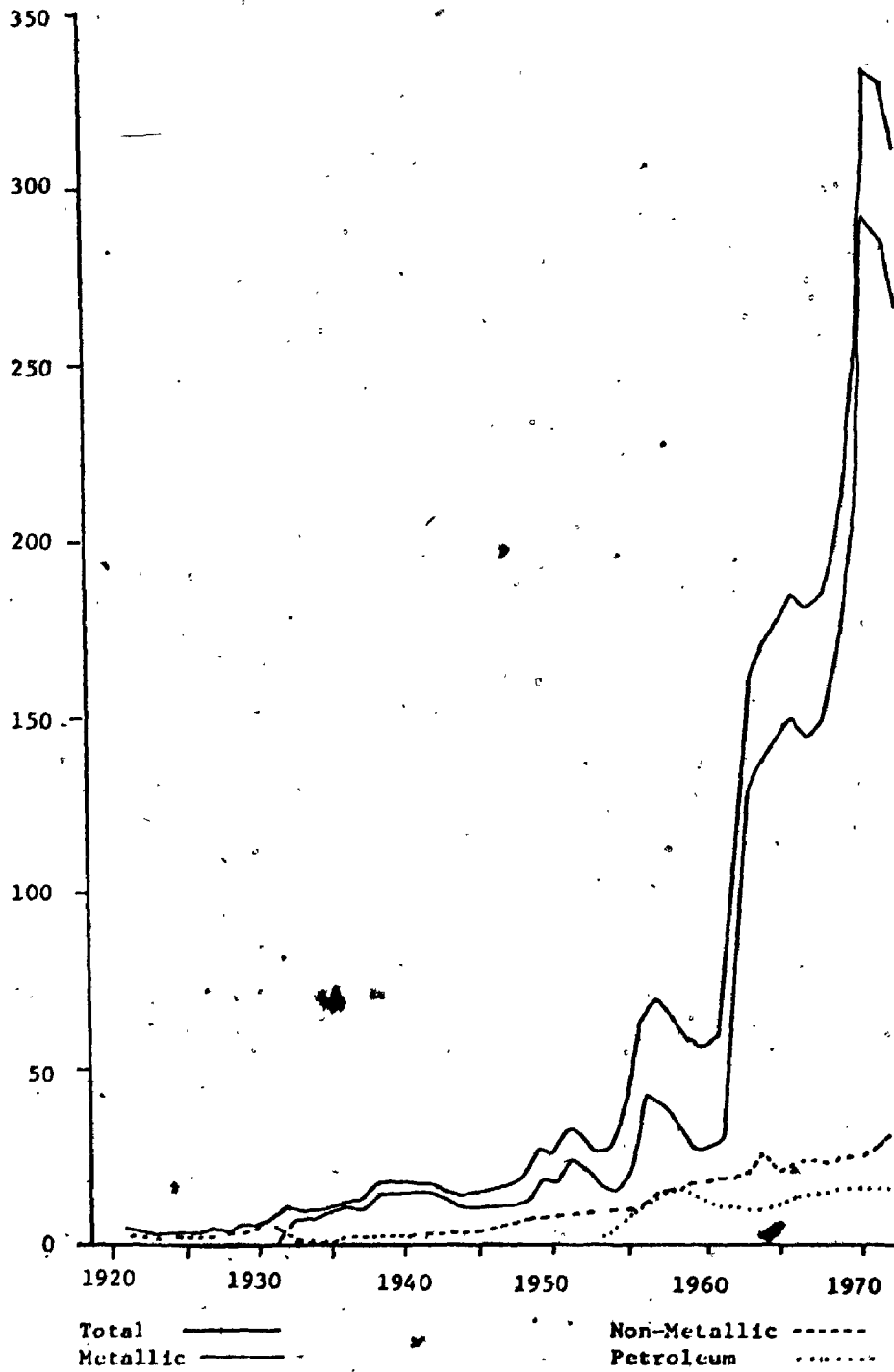
The Industry

Mineral production in the province has undergone four main phases -- the gold mining period of the 1930's; the copper-gold-zinc expansion which also occurred in the 1930's; the oil production period of the early 1950's; and the most recent expansion deriving largely from nickel production. In the fourteen year interval following 1931, disregarding one peak year in 1940, annual production value increased by only \$4.4 million. Among the problems which impeded early growth were transportation difficulties, inadequate metallurgical techniques and low mineral prices. In time, the extension of rail service, the building of roads, and the introduction of air transportation made isolated mine fields more accessible. In addition, the introduction of new techniques led to increased productivity.¹ Despite some difficulties, the industry's overall growth record was impressive, particularly after 1960 when nickel production became significant. In 1972, the estimated value of mineral production in Manitoba was \$311 million -- an increase of almost \$300 million since 1945. (Exhibit 9.1).

In 1972 mineral production accounted for seven percent of

Exhibit 9.1

Manitoba Mineral Production 1920-1972



Source:

Manitoba: Interdepartmental Task Force on Manitoba Minerals Policy. Report, 1974, p. 3.

Manitoba's gross provincial product. This was an increase from six percent in 1965, but less than the high of nine percent in 1970.

Metallics accounted for 84.97 percent of provincial mineral output in 1972 with nickel representing 37.54 percent of the provincial total and copper, zinc and tantalum being 19.02 percent, 5.63 percent and 0.74 percent respectively.

In terms of Canadian minerals production Manitoba ranked seventh among all the provinces. Twenty-five percent of Canadian nickel production occurred in Manitoba, with six percent and 100 percent of Canadian copper and tantalum output respectively.

The Kierans' report estimated the book profit before taxes of three major metal mining firms in Manitoba as fifty million dollars, fifty-six million dollars and eighty-six million dollars in 1968, 1969 and 1970 respectively.² The report also indicated that total provincial taxes, including mining royalty tax and provincial income tax paid in these years was respectively \$4.3 million, \$4.4 million and \$6.9 million.³ An industry report stated net profit before depreciation and processing allowance for five companies in Manitoba as \$62.3 million in 1968, \$88.5 million in 1969, \$119.8 million in 1970, \$58.0 million in 1971 and \$72.6 million in 1972.⁴

The industry report also indicated employment by the industry. (Exhibit 9.2).

Exploration for new mines was also an important function of mining companies. The level of exploration, as measured by feet of diamond drillin (both inside and outside the mine environment) and total expenditure on exploration outside the mine environment for the four major companies in the province fell off after 1970 (Exhibit 9.3).

Exhibit 9.2

Employment by the Metal Mining
Industry in Manitoba, 1966-1972

Year	Employment*
1966	4,100
1967	4,700
1968	4,950
1969	5,700
1970	6,400
1971	6,500
1972	5,800
	5,600

*July, except for 1972 which was
September.

Source:

Statistics Canada: 72-002, 72-201.⁵

The Mining Association of
Manitoba, Inc.

The Mining Association of Manitoba, Inc. was the chief representative of the mining companies operating in Manitoba. The organization was chartered as the Mid-West Metal Mining Association in 1947, and the name was changed to the Mining Association of Manitoba, Inc. on June 8, 1967.

The statement of objectives of the Association includes items such as:

- (a) To promote and foster the business of mining, metallurgy and kindred business and to further the interests of owners and operators of mines; reduction plants and to render such services and assistance to the members of the corporation and to any of the business representatives aforesaid as the corporation shall deem advisable from time to time.
- (b) To make any arrangement on behalf of its members of any of them with any Government authorities, municipal local or otherwise

Exhibit 9.3

Indicators of Extent of Mining
Exploration, 1963-1972

	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972
<u>Outside Mine Environment</u>										
Diamond Drilling - (000, feet)	263.8	237.0	335.3	343.1	207.7	276.8	301.9	295.5	299.5	132.0
Total Expenditure - (\$000)	2,305.4	2,585.6	2,520.5	2,850.6	2,554.6	3,085.9	3,759.6	5,468.7	4,800.4	2,820.0
<u>Inside Mine Environment</u>										
Diamond Drilling - (000, feet)	255.0	341.7	314.9	363.2	323.8	291.3	503.2	675.8	521.4	346.2
Development Drilling - (000, feet)	65.5	66.9	60.0	65.4	66.1	64.1	106.6	104.9	70.5	69.8

Source:

Hedlin Menzies Report. 6

for anything that may seem to be beneficial to the members of the Corporation or any of them.

- (c) To adopt such means of promoting the objects of the Corporation or any of them as may seem expedient and in particular by advertising in the press, by circulars, by purchase and exhibition of works of interest to its members or any of them, by publication or circulation of its pamphlets, books and periodicals and by granting prizes, awards and donations.

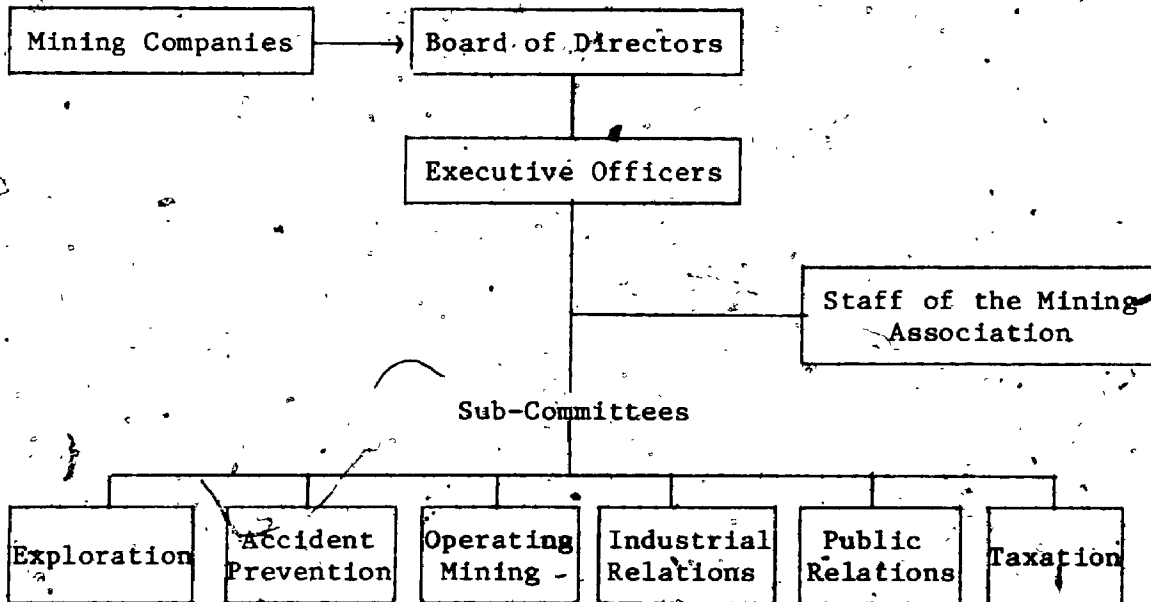
All of the provinces leading metallic mineral producers including The International Nickel Company of Canada, Limited; Hudson Bay Mining and Smelting Company, Limited; Sherritt Gordon Mines, Limited; (the three largest), Falconbridge Nickel Mines, Limited; Dumbarton Mines Limited and; Tantalum Mining Corporation of Canada Limited were members of the association.

The structure of the association (Exhibit 9.4) was headed by a board of directors appointed by the companies. The board elected three officers -- a president, a vice-president and a secretary to serve as the executive. The president in 1973 was P.A. Cain of Sherritt Gordon Mines, Limited, the vice-president was C.T. Williams of Tantalum Mining Corporation, and the secretary was H. Bloy, the full-time manager of the association staff. The president and vice-president change frequently, the secretary is a permanent member of the executive. There were various sub-committees and sections of the association to deal with different topics. The group specifically concerned with the issue of mining royalties was the taxation sub-committee.

The association, under the direction of H. Bloy saw its general role as one of keeping informed of federal and provincial governmental intentions and activities through vehicles such as the media and personal contact with government representatives (elected

Exhibit 9.4

Structure of the Mining Association
of Manitoba, Inc.



and civil service), formulating responses to these governmental actions, and then acting as the spokesman for the industry. The association also kept abreast of developments through liaison with the Mining Association of Canada and other provincial associations.

The established procedure when an issue of concern arose was for H. Bloy and the directors, or an appointed committee, to first meet with the parties concerned and get all the information possible. Then a response would be formulated by the directors and/or sub-committee and the board of directors would meet with the responsible minister or the premier. A Winnipeg Tribune article on June 24, 1974 quoted an industry representative as saying that, "mining people would prefer to deal at the cabinet level on policy matters, although opinion varies as to whether they would prefer to deal with Mr. Schreyer or Mr. Green."

Some of the industry managers primarily involved in the process of government policy formulation included H. Bloy the secretary of the Mining Association of Manitoba, Inc., Peter A. Cain, vice-president of Sherritt Gordon, Don Munn, the chief INCO representative in Manitoba, and Bill Moore of Falconbridge.

Most of the industry representatives had engineering backgrounds, or were heavily involved in mine operation. The Financial Times of March 3, 1975 quoted Mr. Alfred Powis, appointed head of the Mining Association of Canada in March 1975 as saying, "Industry chief executives didn't have the training to deal with it (increased taxation)." He said that "he and many of his colleagues are 'misplaced' as heads of major Canadian Corporations in today's political environment."

Dave Thomas, President of Sherritt Gordon was also involved in the process. He made a number of public statements. Mr. Thomas was instrumental in encouraging united industry activity in response to the government. Company representatives strongly favoured a more limited government role with respect to the industry.

The Mining Association of Manitoba, Inc. engaged Hedlin, Menzies and Associates Ltd., a firm of consulting economists to assist them. Cam Osler, an economist, with political and policy analysis experience at both provincial and federal levels was the manager of Hedlin, Menzies and Associates Ltd. in Winnipeg.

The Government

The major political figure involved in the mining policy issue was Sidney Green Q.C. the Minister of Mines, Resources and

Environmental management. It was indicated in interviews with mining industry representatives that he was respected for his approach of advising industry managers in advance of what governmental intentions were. Industry managers said that although they did not always agree with Mr. Green's proposals they always knew where they stood with him. Mr. Green was of the belief that the public should receive a greater share of the benefit from the mining industry than it did.

The Minister of Finance for Manitoba, Saul Cherniack Q.C., was involved with the mineral royalty tax aspects of the mining policy. His role was primarily to give approval in principle to proposed royalty tax changes and not to initiate revisions. Mr. Cherniack also maintained a policy of keeping the industry informed of intended governmental moves.

Civil Servants

The primary government departments involved were Mines, Resources and Environmental Management and the Planning and Priorities Secretariat of Cabinet.

Mr. J.T. Cawley, the deputy minister of Mines, Resources and Environmental Management was appointed in October 1972. Mr. Cawley had been principal of Cambrian College in Sudbury for two years in 1970 and 1971 and had just begun petroleum consulting work from a Regina office when he was offered the Manitoba position. From 1957 to 1970 Mr. Cawley had been deputy minister of Mineral Resources for Saskatchewan. In Saskatchewan he had also been chairman of both the Oil and Gas Conservation Board and Potash Conservation Board. He had been working for the Manitoba government as a consultant on a

project relating to resource conservation when he was offered the deputy minister's position.

Marc Eliesen, the secretary of the Planning and Priorities Secretariat of Cabinet was also involved.

Government Advisors

The primary government advisor on the issue of mineral policy was Eric Kierans who prepared a report for the government on the subject which was tabled in the Manitoba Legislature in February 1973. Mr. Kierans was a former president of the Montreal Stock Exchange and a former Minister in the Liberal administrations of the Government of Quebec and the Government of Canada.

A task force headed by Professor Bruce Wilson of the Department of Earth Sciences at the University of Manitoba was appointed, in the summer of 1974, to do the background work necessary for redrafting of royalty legislation introduced in 1974. Professor Wilson had worked for The International Nickel Company Limited before going to the University of Manitoba.

History of Mining Industry Policy in Manitoba

The Report of the Task Force on Manitoba Minerals Policy⁷

indicated that:

There have been extensive changes in government's approach to the administration of mineral resources since Manitoba first joined the Dominion in 1870. This is particularly true in the case of metallic minerals.

During the period 1870 to 1930, government's role was primarily regulatory but involved limited promotional activity. From 1931 to 1970 the government engaged in active promotion of mineral development, and offered substantial incentives to mine operators. After 1970, government became more directly involved in the industry and made an effort to increase provincial revenues

from mining by removing earlier tax concessions.

1870-1930

Under the terms of the Manitoba Act, 1870, administration of the mineral resources of the newly-formed province was placed under federal jurisdiction. The primary concern of the Dominion government was the disposition of mineral and surface rights. Prior to 1890, land under homestead regulations conveyed to the title holder the ownership of mines and minerals along with surface rights. After that date, such titles granted surface rights only, and mineral rights were retained by the Crown. In 1928, the first provincial Department of Mines and Natural Resources was established and in 1930, full control of mineral resources was transferred to the province.

During the period of federal administration, the provincial government was theoretically responsible for "controlling mining operations and fostering the industry." In fact, the provincial government involvement was minimal and federal government policies stemmed from the need to regulate the mining industry rather than from an intent to develop it. However, the province did engage in some promotional activities. After 1916, surveys were undertaken by the Manitoba Utilities Commission, the Commissioner of Northern Manitoba, and the Industrial Development Board. Bulletins issued by these agencies provided the mineral industry with some useful data on mineral resources, geological features and mining activities. After 1928, the newly established provincial department began keeping a record of mining activities within the province and functioned as a clearing house for maps and mineral reports published by the federal government.

1931-1970

The transfer of mineral resources from the Dominion to the Province in 1930 marked the beginning of a new era in the history of mining in Manitoba. Because the transfer coincided with growing interest in metallic minerals, the provincial government took immediate steps to encourage exploration. It sponsored training schools for prospectors, co-operated with Ottawa in gathering and publishing annual mineral statistics, and issued monthly news releases on mineral development. In addition, mining Recorder's Offices supplied prospectors with geological reports, maps, and blueprints in order to facilitate their activities.

The government was also anxious to stimulate mineral production. In the '30's and '40's, a number of incentives were adopted in an attempt to induce large companies to establish mining operations in Manitoba.

One such incentive was the introduction of tax concessions. Operators were granted a depreciation allowance based on the sum of all production costs as well as the fixed capital expenditures

required to bring a mine into production. Under the Mining Royalty and Tax Act of 1948, operators were allowed to deduct fifteen percent of such expenses from gross income. This could be increased to thirty percent if authorized by the Minister. In the 1960's, the allowance was reduced to ten percent. An operator was also entitled to deduct eight percent of depreciable assets from net profit (provided this amount did not exceed sixty-five percent of net profit). After all deductions had been made, the amount remaining was considered net income. Under provisions of the Act, the first \$10,000 of net income was tax exempt, and a royalty of eight percent was imposed on the remainder. A further concession made to new mining operations was a fifty percent reduction of royalty rates for the first three years of operation. In addition, the regulations provided for allowances for new exploration, expenditures for municipal taxes or essential services, research which benefited the extractive industry, and mineral claim taxes.

Among other government efforts to encourage mining development during this period were building of roads, port facilities, and airstrips, provision of subsidized hydro power, and favourable townsite agreements. The Mines Branch also offered a wide range of services, such as mapping, surveys, etc., either free or for a nominal charge. In 1966, the Mineral Exploration Assistance Act provided for financial assistance of up to \$50,000 to private individuals.

The scope of the above program reflects a shift in the provincial government's basic mines and minerals policy. The major emphasis was still on servicing and encouraging the private sector. However, during this period government was seen as something more than a purely regulative body. An important part of governmental responsibility was to take the initiative in fostering development. Provincial objectives were expressed in terms of growth, measured by the number of jobs created both directly and indirectly through mining activities. Further incentive was provided by vigorous competition from other growing provinces.

1971-1973

In the 1970's, the provincial government has continued to encourage mining and mineral development. However, there has been a significant change in approach. More emphasis has been placed on provincial revenue from mining operations. The new approach is to direct the course of development, both through regulations and through actual participation in mining operations. The Mining Royalty and Tax Act has been amended to remove the three-year fifty percent tax exemption for new mines and royalty rates have been revised to obtain a more equitable return to the province from mining. The government has also become directly involved in the development of mineral locations.

In the fall of 1971, the government created a Crown Corporation, Manitoba Mineral Resources Ltd., whose objective is to discover mineral deposits "that will result in a profit to the Province of Manitoba." Under its terms of reference, the new agency is empowered to both compete with private companies and enter into joint agreements with them.

The Manitoba government set a Canadian precedent in its development of the new townsite at Leaf Rapids, near the Ruttan Lake Mine. The mining company's assessable surface property was put on the local tax roll. In the past, mining townsites have operated under special agreements whereby the mining company provided community assets in return for tax concessions.

Change in Government Approach

The history of government policy respecting the mining industry indicated a definite change in attitude and policy regarding government concessions to the industry.

The former attitude is well illustrated in government planning reports. For example, the Committee on Manitoba's Economic Future (COMEF) report of 1961 recommended, "greater efforts in attracting mining exploration and development capital through stepped-up programmes of mapping and exploration, promotion, dissemination of data, locating new industrial minerals and reducing exploration and operating costs of the mining companies."⁸

The report of the Targets for Economic Development (TED) Committee in 1969, completed under the Progressive Conservative government indicated that,

The mineral resources of northern and eastern Manitoba, can be seen as a major frontier of economic development for the province. However, the successful growth of the industry will depend, in large part, on the actions of government in providing a favourable environment for exploration and on the ability of government and the private sector to co-operate in the development.

In general, the responsibilities of government include the encouragement of exploration and development of mining resources;

the encouragement of manufacturing, refining, smelting, and further processing; the provision of essential capital infrastructure investments including transportation systems; greater mortgage flexibility for accommodation needs such as mobile homes; and providing better geological information.⁹

Debate on the Mining Exploration Assistance Act in 1966, an act which provided for government cost sharing in mineral exploration, indicated the governmental policy approach. Speaking during debate on second reading Mr. Sterling Lyon, the Progressive Conservative Minister of Mines and Natural Resources said,

The purpose of this bill, therefore, is twofold. First we wish to add further impetus to mining exploration directly to the expansion of this very promising industry; and secondly, we wish to encourage the extension of the rapid pace of mining exploration into less intensively explored areas of the province, and also to direct exploration activities toward minerals which are receiving only limited attention at this time.

... This bill it will be remembered, is in addition to incentives which were offered last year in the mineral development field such as cost sharing of roads into developed mining properties, new tax incentives under the mining tax legislation, and this bill coming in its turn as a program of incentives aimed primarily at increasing the rate of mining exploration and expanding the area of intensive activity throughout the mineralized areas of the north and into other promising areas in the southern part of Manitoba.

In brief, the main principles are that assistance will be awarded for exploration work of a kind approved by the Minister. It will be our policy to include a wide range of exploration work as activity suitable for assistance ... The areas to be designated will be those on the periphery of the areas where intensive activity is occurring at the present time, and in the more remote areas of the province by and large, although this will not be a hard and fast or inflexible rule ... This bill provides for broad flexibility to direct incentives toward types of exploration areas to be explored and minerals to be sought within these areas.

Grants will be provided only under a contract or agreement between the individual or the firm carrying out the exploration, and the government. A firm or an individual in any one year may obtain for approved exploration expenses a maximum of \$50,000 or fifty percent of his approved expenses, whichever is the lesser. Not more than \$150,000 will be granted in respect to any one mining property. Repayment will occur only in those areas where

a mineral deposit is discovered and a mine is developed. Recovery will be made under the contract from earnings of the firm developing the mine....¹⁰

When the Mining Exploration Assistance Act was introduced to the Legislature Mr. Saul Cherniack (Q.C.), the NDP mining spokesman questioned whether the government was receiving a return on the money used for supporting exploration.¹¹ Mr. Cherniack said that:

We have had spelled out for us by the Honourable Minister the manner in which these grants are made. I don't know why they're called grants, if indeed they are loans, and I hope we'll get some clarification just why and how grants can be interpreted to be loans. Still he says they are loans and that's good because loans mean agreements and agreements mean understandings and terms. So far this government has succeeded in collecting in royalties some two and one-half percent of the production and we have had occasion in the past to deplore the fact that the government has not made a more substantial return on the natural resources which we lend out to the people in that field (and) which the minister has formerly described as being irreplaceable, non-reproducing natural resources. Now if the government finds it necessary with the commendation and assistance of the Honourable member for Burrows (Mark Smerchanski - Liberal and Mining engineer) to give these incentives then I would like to know just what the government is going to get back. Is the government going to continue to get back some two and one-half percent of the production? And when I say, "is that all they get back" I want quickly to say that I appreciate the fact that production of this type brings with it other benefits for the people not just the royalties. Yet the royalties are the investment that the people are getting back from the direct return of permitting private enterprise to deplete our resources and I would think that it is high time that if the government is going to gamble one-half of the cost of exploration that its return should be substantially better than two and one-half percent of the production.¹²

The Royal Commission on Taxation, or The Carter Commission, was one of the groups to question the advisability of continuing to offer concessions to mining operators. The Commission said that:

We have therefore come to the conclusion that the need for special encouragement to mineral and petroleum exploration to compensate for a capital market bias against risky ventures is small, if it exists at all. We are also convinced that there are fiscal methods available that would be as efficient as, or more efficient than, tax concessions in encouraging exploration if

this was deemed to be in the public interest.¹³

Events in jurisdictions outside Manitoba were also indicators of the change in attitude of government to industry. An industry analyst indicated that the experience in Chile where President Allende nationalized the copper mining industry had been a significant indicator of changing attitudes to the mining industry.

Commodity price inflation in 1973 and 1974 with its attendant increase in mining company profits provided a basis for government argument that mining companies could afford to, and in fact should, pay additional taxes. This argument became more attractive to government where, as in the case of the Ontario provincial government, they were looking for additional sources of revenue.¹⁴ The controversy that arose over federal-provincial sharing of revenues from natural resource companies, highlighted by the Alberta-Ottawa controversy over oil revenues was also an important background factor in the development of mineral policy in Manitoba.

Changing attitudes to the mining industry in other government jurisdictions were also evident in British Columbia. A December 1972 interview with Mr. Leo Nimsick the newly elected NDP Mines Minister in British Columbia indicated that:

Mr. Nimsick takes the position that industry should have the same relationship to the Crown, as it would to a private individual. He further believes that Crown should conduct its affairs like a private company, with the Crown's shareholders being the general public. Thus, he feels that no longer should mineral resources be granted free to private enterprise. He also takes the view that government grants should no longer be given to industry, and that any contributions should be termed "investments." If the government is going to participate in a project, it will make an economic analysis. If it deems the project to be a good investment it will participate, and in return will receive equity.¹⁵

History of Industry Dealings with the Manitoba Government

During the Roblin administration and in the period immediately prior to June 1969 when the Progressive Conservatives were still in power an informed industry source indicated that there had been little change in governmental policy with respect to the mining industry. It was also indicated that the mining portfolio of cabinet was viewed as one of the less prestigious positions and the ministers had not aggressively pursued policy changes. The Mining Association of Manitoba played only a small role in dealing with the government because when a company had a problem that required attention they tended to take it directly to Premier Roblin.

The source also indicated that prior to the June 1969 election no problems in the political arena were anticipated by the mining industry.

The 1969 Election

In the 1969 election campaign, Mr. Schreyer advocated an investment corporation to finance development in the north. After the election there was no immediate action with respect to the mining industry. Mr. Len Evans was initially appointed Minister of Mines and Natural Resources and served in that capacity until replaced by Mr. Sidney Green on December 18, 1969.

The Mining Association of Manitoba had not become involved in the election. After it, however, there was apprehension about possible changes in government policy. Shortly after the election contact was made with Mr. Evans.¹⁶

Developments in 1970

The government began to review and substantially modify the approach to the mining industry in 1970.

Bill 17 was passed in 1970 allowing establishment of crown corporations in the natural resources area. This bill was a carryover from the Progressive Conservative administration. On June 20, 1970, at a celebration of the NDP's first anniversary in power Premier Schreyer indicated that the province intended to form crown corporations to develop natural resources as an alternative to "practically giving away the province's natural resources to ensure industrial development."¹⁷

The reaction of the mining industry to the legislation enabling crown corporations was that they did not mind competition by the government provided the government operated under the same rules the private companies were subject to. No significant effort to influence the legislation was made.¹⁸

Amendments to the Mining Royalty and Tax Act were also passed in 1970. The amendments provided for an increase in mining royalty taxes to a rate of six percent where mine income was less than \$50,000; to fifteen percent where income was above that. The previous rates had been six percent on net income up to one million dollars, nine percent for net income from one dollar to five million dollars and eleven percent on net income above that.

Action by the industry respecting the increase in the mining royalty taxes involved making a personal representation to Mr. Cherniack. Prior to introduction of the legislation in July 1970 Mr. Cherniack met with industry representatives to inform them that

taxes would be raised. After the meeting the finance committee of the association met and decided upon a brief for presentation to Mr. Cherniack.

As part of a general review of the mining industry a study was undertaken, in the summer of 1970, by C. Framingham and L. Rivkin of the Planning and Priorities Secretariat of Cabinet. The study evaluated, in a preliminary fashion, the costs and benefits of the industry to Manitoba. Industry representatives were not aware a study had been undertaken.

The 1970 Manitoba NDP Provincial Convention in the last week of October 1970 passed the following resolution:

WHEREAS the New Democratic Party has always believed that natural resource development must first and foremost benefit the public as a whole and not a few resource developers; and

WHEREAS natural resources are frequently non-renewable and proper management, planning and exploitation is of utmost importance, and

WHEREAS a system of give-aways, tax holidays, and subsidies exist for private developers which often results in net losses to the public purse; and

WHEREAS even under the new schedule of mining royalty fees income to the government will represent only about two percent of total mineral output;

THEREFORE BE IT RESOLVED that the NDP commit itself to include public ownership and development of natural resources in all future operations by the use of Crown corporations or similar tools.¹⁹

Developments in 1971

In 1971, the government allocated \$500,000 to establish a mineral exploration company. In the estimates debate Mr. Sidney Green said:

The next significant real directional change, Mr. Chairman, which the Department is undertaking is in the area of mineral

exploration where the Department is asking for the sum of \$500,000 for the purpose of setting up a mineral exploration company ...

I would like to indicate Mr. Speaker, that the Crown has done much exploration work in the past. This is not something new. The only difference is that the previous exploration work is money that we spent for the benefit of private companies, and it has been in the Budget every year.²⁰

In the summer of 1971 a six week study of the Manitoba mining industry was undertaken by T.K. Rymes, an economist from Carleton University working on a contract for the Planning and Priorities Secretariat, and G. Chuchman, a University of Manitoba graduate student in economics. The study was essentially a theoretical document to set out a programme of research whereby the costs and benefits associated with mining developments, including townsites could be assessed.

The most important conclusion of the study, according to the authors, was that governments had failed to use proper prices in their various arrangements with mining companies. The opinion of the researchers was that governments had not been receiving returns commensurate with the various encouragements such as tax concessions, hydro rates and townsite development they had been offering mining companies.

Recommendations included:

1. Re-examination to redesign, the Royalty tax system, possibly with other provinces.
2. Further research to determine if Manitoba Hydro was providing power (to mining companies) at an adequate social return rate.
3. More research to consider some method of pricing the externalities of mining such as pollution.²¹

Again, industry representatives had no knowledge a study had

been undertaken by the Planning and Priorities Committee.

Another 1971 development was the Leaf Rapids Corporation, whereby the government undertook to develop a new mining townsite eighty miles southeast of Lynn Lake. The corporation was set up by Order-in-Council on July 16, 1971. This marked a major change from the previous policy of relying upon private companies to undertake this work.

Establishment of the Leaf Rapids Corporation was acceptable to the industry. However, there was, and still is, concern about the extra cost the employee homeowner has to pay in taxes.

Developments in 1972-

On March 2, 1972 Mr. Sidney Green announced his resignation from the cabinet because of a disagreement with Premier Schreyer on the issue of public aid to private and parochial schools. Premier Schreyer was publicly committed to government aid to private and parochial schools while Mr. Green was opposed to it. Mr. Green returned to the cabinet, to the same portfolio, on June 9, 1972, after public aid to private schools had been rejected by the Legislature.

On April 25, 1972 Premier Schreyer announced that Eric Kierans had agreed to serve as a consultant to the secretariat of the Planning and Priorities Committee of cabinet. Mr. Kierans, it was expected, would prepare a section in a Planning and Priorities report dealing with resource policy.

When Premier Schreyer announced that Eric Kierans had agreed to serve as a consultant to the secretariat of the Planning and Priorities Committee of Cabinet, industry representatives felt that

Mr. Kierans would not be fair to the mining industry.²² No action was taken by the association to protest Mr. Kierans' hiring.

In 1972 there were also amendments introduced to the Mines Act. The amendments provided, in summary, that employees would be required to report safety hazards to superintendents and that they could, with no penalty, refuse to work in a mine they considered unsafe.

The Mining Association of Manitoba, in a brief prepared by H. Bloy and two directors, and presented to the Standing Committee on Law Amendments argued that the proposed amendments were an interference in management's right to direct the work of employees.

In the late summer of 1972 Mr. Green phoned Mr. Donald Munn, vice-President of the International Nickel Company, in charge of Manitoba Operations in Thompson and asked him to meet with the NDP caucus to discuss the mining industry in Manitoba. Mr. Green indicated in his invitation that there would probably be substantial hostility to the mining industry from members of the caucus. Mr. Green had met Mr. Munn on previous visits to Thompson. The meeting was held on the train from Thompson to Churchill. The atmosphere was cordial and after Mr. Munn's seminar presentation, the informal discussions continued until after midnight.²³

On October 24, 1972 Mr. Green made a statement at the Canadian Institute of Mining and Metallurgy Conference in Saskatoon, which he regards as the basis of all subsequent mining policy.²⁴ He said that:

The strategy of the Manitoba Government with regard to the development of its mineral resources is relatively simple. It can best be compared to what the strategy of any private mining company

would be with regard to the mineral claims which it is now holding under lease. I am certain that a private mining company holding mineral leases would first of all want to retain its lease lands on conditions most favourable to itself. Secondly, it would want to have the flexibility to develop those lands as and when it chose to do so, as determined by its other holdings and its costs of proceeding. Thirdly, it would like to proceed with mining development on the best terms possible with payment of as small amount of taxes as it could get away with. These observations are not made in criticism of the mining companies' policies. They amount to good common business sense.

For years it would appear that for some reason or other governments have managed their affairs so as to facilitate the interests of the private mining corporations. They have permitted the leasing and holding of mineral rights on relatively attractive terms to the mining companies. They have done little to place stringent requirements on the development of dormant mining leases and they bent over backwards to reduce taxation and to provide special concessions to the mining industry. It should be obvious that policies of this kind dovetail exactly with the policies of the private mining companies. They do not make good sound business sense from the point of view of the government.

The Manitoba Government has decided to follow the example of the private mining corporations. It is presently holding in trust for the people of Manitoba a substantial acreage of unstaked potential mining properties. Like the mining companies, it will try to retain control of this potential source of mineral wealth. By retaining control of this source of mineral wealth, it will hope to have maximum flexibility in deciding as to when and under what circumstances it will be developed. In the development of these potentials it will hope to retain as much of the returns for the people of Manitoba and to pay as little as possible to other persons. This is good sound business sense and we appreciate the example of the private mining companies who have shown us the way.

The manner in which the policy of Manitoba has been implemented has been very simple:

1. We have stopped the automatic renewal of the mining leases and will not resume same until we are satisfied that the holders of the leases are not merely preserving their possession of same without engaging in any productive work.
2. We are engaging in a policy of taxation whereby Manitoba will not enter into an auction competition of giving tax concessions or incentives to match the highest bidder.
3. We are now investing exploration funds on behalf of the people on their own property in the hope of realizing the totality of the potential returns rather than the tax collector's share.

It would appear that for many years the provincial jurisdic-

tions in Canada have been vieing with one another for the purpose of trying to lure industrial mining development to their province. The result has been that the provinces have become the spokesmen for the mining interests in obtaining tax concessions and tax incentives from the federal government. For many years the annual Mines Ministers' Conference joined with the mining industry in asking for federal government concessions. Fortunately this practice has been discontinued.

However, in my view this is not enough. What is needed is not a discontinuance of the former practice, but a complete reversal of the former practice. It is in the interests of the people that the provinces get together and ask that the federal government increase rather than decrease the taxation of mining companies and the provinces should then see to it that any implemented increases should be maintained with no province breaking ranks in the hope of luring development.

What then will be the answer to those who will hold up the scare of reduced activity, including exploration and producing mines? There is only one answer that is for the provinces to commit themselves to continuing the level of productivity not by incentives but by public investment to pick up any threatened slack resulting from the implementation of a fair system of taxation. This strategy is being attempted to some extent in the province of Quebec and in the province of Manitoba and in my view is the only sensible strategy in the long run. The Manitoba Mineral Resources Limited is in its infancy and has a relatively small exploration budget. Its potential is, however, very great and is moreover a vital counterpart to any policy of tax integrity on the part of the Government with relation to the private mining sector.²⁵

In October 1972, James T. Cawley was appointed Deputy Minister of Mines, Resources and Environmental Management.

Developments in 1973

The Kierans' Report

The Report on Natural Resources Policy in Manitoba prepared by Eric Kierans was released by the Manitoba government in February 27, 1973. The major recommendation was repatriation, by the Crown of all existing resources leased to the private sector within ten years.

For the ten year transition period Mr. Kierans recommended a tax on reserves to force the rate of repatriation; a fifteen percent

volumetric tax; an increase in mineral acreage leases to speed repatriation; and abolition of the Mineral Exploration Assistance Act.

Long term recommendations were for a sufficient budget for the Manitoba Mineral Resources Ltd. to pursue an exploration program in Manitoba; abandonment of the practise of assigning mineral rights to the private sector for exploration, mining and developments; and creation of crown corporations to develop new ore bodies.

The personal opinions of Premier Schreyer and Mr. Green on Mr. Kierans' recommendations were recorded by the Winnipeg Free Press political reporter, Frances Russell in a March 1, 1973 editorial page story. She said:

The premier has reiterated his long-standing view that the Crown is better off using public money and initiative to find and develop new resources than to take over and operate existing ones. Mr. Schreyer has also advanced his personal liking for public-private partnerships, along the lines of Panarctic Oil, for massive resource ventures.

Mr. Green views Mr. Kierans' thesis of public ownership of resource industries as "ideal, as we were starting from day one. But we aren't starting at day one. Private industry has acquired certain rights and expectations, and therefore, government must modify its program to take into account these existing rights and expectations.

Mr. Green has come out in direct conflict with Mr. Kierans' concept of recovering resources from the private sector; through the simple expedient of taxing the industry out of existence.

Mr. Green said that, the extent to which a government can tax a private industry is limited, because to tax an industry like the mining industry to its full worth would be to deter it from staying or locating. No government can entertain this option unless it is prepared to go into the field itself when private industry is no longer operating.

Personally, if the decision was made to put this industry out of existence, I would prefer to go to them directly, and offer to buy them out than to tax them out. That would be fairer. Why do by subterfuge what you should do legitimately?²⁷

On February 27, 1973, the day the Kierans' report was tabled

in the Legislature, Premier Schreyer announced that it would be reviewed by an interdepartmental task force.

In reaction to Mr. Kierans' report, David Thomas, President and Chief Executive of Sherritt Gordon Mines in Toronto stated that his immediate "gut" reaction was that "it sounded like Uganda (Chile)." "It sounds as if he wants to confiscate everything."

... "He noted that his company had been in Manitoba since 1927 and during that period there had been 'very little government input.'"

"He acknowledged that his company 'hasn't paid much in the way of taxes lately' but suggested the Government should make up its mind whether it wants 'jobs or taxes.'"

"Why should we be answerable to somebody who can't run the post office."

"With reference to the multinational corporation mentioned in the report, Mr. Thomas said his company is fifty-two percent owned by Canadians and of the 18,000 shareholders about 14,000 are Canadians."

"I'm a native Winnipegger and I'm more of a Manitoban than Kierans'."28

On Sunday, March 4, 1973, Mr. Kierans appeared on the CBC-TV show "Weekend" with a panel of questioners. The President of Noranda Mines Ltd. said that Mr. Kierans was a socialist. He indicated that he felt Mr. Kierans had biased the report against the mining companies because they had fought against the proposals of the Carter Commission on mining company taxation.

There was no advance notice to the industry of the contents of the Kierans' report. The general attitude of people in the industry

was very negative toward Mr. Kierans'. The feeling was that he was a socialist.

Another development in March 1972, was publication of the Manitoba government's Guidelines for the Seventies report prepared by the Planning and Priorities Secretariat. The report said that efforts should be directed toward ensuring "that the benefits to be gained from mineral development will accrue to the people of Manitoba, the rightful owners of this resource,"²⁹ while allowing a fair rate of return to the existing corporations.

The report indicated that the government had a broad range of tools to achieve its objectives including taxation policy, publicly-owned exploration and development corporations and regulations.³⁰

Actions by Mining Association of Manitoba after Publication of Kierans' Report

Hedlin Menzies and Associates Ltd., a firm of consulting economists was engaged by the Mining Association of Manitoba to undertake an analysis of the Kierans' report. The firm had previously done work for INCO on evaluation of the benefits to Manitoba of INCO's Thompson operation. The original desire was to have the consultants prepare a critical review of the Kierans' report and reveal it as a poorly prepared, poorly thought out document which would not stand up to analysis. The Hedlin Menzies people, led by Cam Osler, argued that there was a more reasonable approach to the problem than simply attempting to discredit Kierans. They said it was necessary to present an alternative to the government based on an alternative

framework of analysis. They argued against the notion of just typing the report as socialist and waiting for an election to work to defeat the government. The Hedlin Menzies approach was accepted by the association.

The completed Hedlin Menzies study which questioned the data used, conclusions, and recommendations of the Kierans' report was presented to the interdepartmental task force committee which was conducting a review of mining policy, in late-1973. A draft of the report was presented to the Mining Association of Manitoba in June 1973. It was subsequently reviewed by representatives from the different companies before being completed and presented to the government.

A major point in the Hedlin Menzies evaluation was that the conclusions Kierans came to regarding economic rent based upon publicly available data were not supported by confidential company data.

The interdepartmental task force announced by Premier Schreyer had been formed prior to the announcement. The task force was composed of the deputy minister of Finance; Mines, Resources and Environmental Management (MREM); and Industry and Commerce; and the Secretary of the Planning Secretariat. These were, respectively, S. Anderson, L. Remis, J.T. Cawley and M. Eliesen. There were also analysts from each department. George Davies represented the Planning and Priorities Secretariat and, G.R. Hjordleffson represented Mines, Resources and Environmental Management.

In committee discussions there were different basic positions taken with respect to the means of collecting increased royalties.

Planning and Priorities representatives were inclined toward adoption of a volumetric tax while Mr. Cawley was opposed to this vehicle as a basis for establishing royalties. The concept of a volumetric royalty tax was ultimately rejected. There was some support for the Kierans' recommendations that the province take over the industry within ten years, however, Mr. Cawley disagreed with that position and argued effectively against its acceptance.

Representatives of the interdepartmental task force were not impressed with the report prepared by Hedlin Menzies and Associates. Two reactions to the report were heard. The first was that the researchers compiling the Kierans document did, in fact, have access to the same confidential royalty tax forms used by Hedlin Menzies, besides which, the argument that the government did not have as much information as the companies was an old one which lacked credibility. The second reaction was that all the arguments presented in the report, except the advocacy of joint government-industry projects, were familiar.³¹

The interdepartmental task force submitted its report to the cabinet in late 1973. Highlights of the recommendations included revision of the Mines Act to require fuller disclosure; government review of companies; proposed exploration, development and/or production plans to ensure consistency with government policy; institution of a volumetric tax (which was not based on volume) to replace the existing taxation scheme; fee revision on governmental services to cover costs; and that a governmental agency be established to administer mining policy which would also have the option to participate in all new company projects.³²

Following receipt of the report from the interdepartmental task force the cabinet considered it in December 1973 and January 1974. Discussion in cabinet centred mainly around the issue of whether to proceed toward the government objective of obtaining a greater return from the natural resources of the province by straight royalty taxation methods or by more sophisticated means such as ownership, participation and/or new types of taxes such as an extraordinary profits of the industry.

On December 28, 1973, a brief prepared by the directors of the Mining Association of Manitoba was presented to the Manitoba government. The brief advocated joint government-industry ventures for development of mineral resources in the province as presented in the Hadlin Menzies report.

Mr. Bloy also appeared on television to discuss the proposals. Appearing on the same show was Mr. Sidney Green.

Developments in 1974

The Throne Speech on January 31, 1974 indicated that:

Public interest concerning the development of our mineral resources is a matter which has already been given serious attention by the government. Past development has been left almost exclusively to the private sector and my ministers advise that the wealth created by the exploitation of these resources has not resulted in sufficient benefits accruing to the general public. For these reasons my ministers have given greater emphasis to public participation in the mineral resources development field. Measures taken have included the creation of a public corporation to participate in the activity of mineral exploration, both as an exclusive public venture and in joint participation with private sector companies; an increase in the royalties payable for utilization of the mineral resources; and a more stringent attitude towards disposing of resource leases to private interests.

As a result of further studies relative to these questions, my ministers will be seeking approval of the Legislature for further

government participation consistent with directions already taken.³³

On March 7, 1974, Mr. Green invited representatives of the Mining industry to a meeting and indicated that a new mining policy was to be announced shortly.

On March 21st, Mr. Green read a policy statement in the Legislature and made copies of it available. The report on Manitoba mineral policy prepared by the interdepartmental task force was released at the same time.

The policy outlined by Mr. Green³⁴ was based upon objectives of: (a) the people of Manitoba receiving a fair return as owners of the mineral resource, (b) private sector companies receiving a fair return on their investment, (c) the people of Manitoba receiving a fair share of any added value or economic rent occurring because of scarcity and/or increased value of minerals unrelated to immediate production costs, (d) a more active future governmental role in exploration, development and processing of minerals, (e) jealously guarding resources still provincially owned and using them to obtain an opportunity to participate in their development, and (f) conduct of activities by private sector (in minerals) more consistent with overall social and economic objectives of Manitoba and disclosure of information to support this objective.

To achieve these objectives Mr. Green proposed leaving existing royalty rates at the same level but giving the Lieutenant-Governor-in-Council authority to alter them if another proposal, to introduce a new tax based upon mineral prices, could not be implemented. To achieve the objective of a more active role in

mineral exploration and development, Mr. Green proposed a government agency which would in the future review any intended exploration and development by private companies with the option to participate up to fifty percent in the program. He committed the government to maintaining the level of exploration activity in the event private companies decreased it. Mr. Green also indicated there would be requirements for fuller disclosure of information by mining companies in Manitoba and, in the long run more processing of minerals in the province.

In commenting on the announced mineral policy I.H. Asper, leader of the Liberal party observed that the government had made a major philosophical decision to go into the mining industry and he was not in favour of this. He indicated he could not accept the government proposal to give cabinet the right to change taxes without consulting the Legislature. He also opposed the concept of a tax tied to mineral prices, saying it gave government an incentive to raise prices.³⁵

On the evening of March 21, 1974, the same day as Mr. Green's policy statement, Saul Cherniack announced in the budget speech that:

Legislation will be introduced shortly to permit the implementation of a variable system of volumetric taxation related to a base price and price fluctuations. This system will help to make certain that, in the future, the people of Manitoba will retain an equitable proportion of the economic rent or the "super profits" inherent in our natural resources. At the same time, it will guarantee that mine operators will continue to realize a fair return on their investment. The legislation will permit specific tax rates to be established by authority of the Lieutenant-Governor-in-Council as circumstances warrant.

Amendments will also be introduced to the Mining Royalty and Tax Act. Included among these amendments will be provision for similar rate-setting authority for the Lieutenant-Governor-in-Council in respect of Royalty Tax Levels, effective July 1st.

This will parallel current practices with respect to production from oil resources in Manitoba and other western provinces.

For 1974, additional revenues from mining royalties will finance an important new tax reduction to give further help to those who are suffering the greatest hardship, as a result of inflation.

I am pleased to announce that our government will be introducing a new fourteen million dollar cost-of-living Tax Credit program this year.³⁶

In the budget debate Sidney Spivak, leader of the opposition criticized the proposed changes for removing the power of taxation from the Legislature. He said:

In their proposals to vest in the Cabinet the power to determine mining royalties; the element of uncertainty is simply being transferred from one level of the political process to another ... The suggestion that a matter of taxation should be vested in the Cabinet strikes at the very heart of responsible parliamentary government as it has developed in Britain and in Canada. Mr. Speaker, the growth of parliamentary government was a direct result of the insistence that the king should not be allowed to tax without the consent of government.³⁷

A governmental viewpoint on the issue of who should determine the level of royalties was that,

The Opposition position that Cabinet, through Order-in-Council, by determining mining royalties "strikes at the very best of responsible parliamentary government as it has developed in Britain and Canada" was not juxtaposed with the government's position. In the parliamentary system, the determination of royalties has always been vested with the King, as a royalty is not a form of taxation. Historically, the Crown was vested with the right to charge a use or alienation charge for its property. Consequently, the terms of the right to "win, take, and carry away" the King's property belonged to the King and not Parliament.³⁸

Industry Reaction to Mining Policy

The day the new mining policy was announced on March 21, 1974 representatives of the mining industry were in attendance at the

Legislative Assembly to hear the policy statement and the budget speech. Association and Hedlin Menzies personnel worked late into the night of March 21st to prepare a brief on the mineral policy statement, Mr. Cherniack's budget and the task force report.

The brief, presented to the government the following day, noted the association was pleased with objectives outlined by Mr. Green's policy statement, but had to wait to see details of the program for implementing them before providing a reaction. The brief criticized the budget policy for inconsistency with the announced resources policy. It said a resources policy could not be fair if the cabinet had authority unilaterally to change taxes. Furthermore, if taxes were raised in good years how could companies achieve an adequate return in poor years. The brief also criticized the budget because it said the increased mining royalties would not be reinvested in the mining industry, whereas the mining policy statement had indicated that money would be reinvested.

The task force report was criticized for not commenting upon the Kierans' report and the mining association's brief on it. It was indicated that final commentary on the task force recommendations had to wait for further clarification of the government position.³⁹

Mr. Sidney Green indicated that the brief was hastily prepared, not to the point, and not an effective document.⁴⁰

Drafting of Legislation

The royalty tax increase referred to in Mr. Green's policy statement and in the budget was to be included in a bill on tax revisions being prepared by the Department of Finance. The increased

exploration and development role of the province was to be pursued by changes in government regulations and did not require further legislation. Redrafting of regulations had been an ongoing process for about two years previously. There had been a number of meetings between industry representatives and Mr. Cawley.

The bill to tax economic rent accruing to mining companies was drafted by Mr. Cawley, assisted by Al Mackling,⁴¹ the Attorney General of Manitoba prior to the June 1973 election. This bill, it was decided, would also embody a concept of resource husbandry not to increase arbitrarily the grade of ore taken from their mines to offset increased royalties. The husbandry aspect of the legislation was included because of Mr. Cawley's long time concern about resource conservation. Drafting commenced shortly after Mr. Green's policy statement and finished in mid-May 1974.

During drafting of the bill, Mr. Green had no direct input into or control over the process. Because of his other commitments the first time he had an opportunity to see the whole bill and review it thoroughly was shortly before its introduction to the Legislature for second reading. Cabinet did not consider the draft bill before it was printed and made public on May/29, 1974. Similarly, the NDP caucus did not consider the bill in detail before it was introduced for second reading.⁴²

The mining association had no input into the drafting process. They had no knowledge of the content of the legislation until it was introduced.

Legislative Consideration

On May 27, 1974 both bills dealing with mineral policy were introduced to the Legislature for first reading. Bill 77, The Statute Law Amendment (Taxation) Act (1974) was introduced by Mr. Saul Cherniack. It was an omnibus piece of legislation containing a number of tax amendments. Part VI of the Bill was entitled, Amendments to the Mining Royalty and Tax Act. It proposed that royalty rates be increased for a mine with income above \$50,000 to "an annual royalty rate of twenty-three percent, or such smaller percentage as may be fixed by the Lieutenant Governor in Council."

Bill 82, The Principal Minerals Royalty Act, was introduced by Mr. Sidney Green. It contained provisions for a tax on mining income that would vary with mineral price fluctuations. It also contained provisions to regulate the grade of ore mined by companies.

In introducing Bill 82 for Second Reading on May 31, 1974 Mr. Green said:

The Minister of Finance, Mr. Speaker, brought in legislation which adjusted the royalty rate to twenty-three percent, fixed in the Statute -- that is, the upward limit fixed in the Statute -- so that the amount of money that was contemplated to be realized could be done through a tax rate which was in the statute and fixed, and need not be adjusted by the Lieutenant-Governor-in-Council. So rather than the Lieutenant-Governor-in-Council having moved it to twenty-three percent, the Legislature is being asked to approve a piece of legislation that would have that effect.

We still, however, Mr. Speaker, in order to implement the policy, required the flexibility to bring that royalty tax down when it is to be substituted for by the tax which we hoped, and still are of the opinion, can capture economic rent. So the policy statement to that extent, Mr. Speaker, is being implemented in its entirety. The manner in which it is intended that it will operate; is that when the incremental royalty tax becomes operative, then the additional revenues that are being contemplated to be achieved by the raise from fifteen to twenty-three percent, will be achieved by the incremental royalty, and the twenty-three percent then would be reduced to fifteen percent so that the

statement in the mineral policy statement that the existing level of royalties will remain relatively unchanged, will be carried out in accordance with its intentions. So that is the first level of taxation, Mr. Speaker, and that was the royalty tax. The intention when the entire policy statement is implemented, is that that royalty tax will be, inasmuch as intention can ever be, a statement as to future position which can change, but our policy as of now is that it will be fifteen percent and that the incremental royalty will make up the additional revenues that are being sought.

Now, Mr. Speaker, I wish to indicate that things have changed since we issued the policy statement; that royalties have gone up in the Province of Ontario; royalties have changed in the Province of British Columbia. The Manitoba Government is of the opinion that it can best achieve additional revenues, not by affecting the basic royalty, but by affecting what we think are gains made through the improvement in economic rent rather than a tax on royalties as a flat income tax which is what has been the procedure up until now.

Now the second item of taxation, Mr. Speaker, was as follows: A new tax will be introduced with the specific intention of providing the people of Manitoba with a fair share of the economic rent accruing to our resources resulting from their scarcity and enhanced value and not resulting from an increased cost of production. Recent events have made it quite clear that prices in many commodities, and in particular natural resources, have risen without relation to their cost of production. This phenomena has resulted in returns to the private developers of such resources far beyond the kind of return which was contemplated by the original investment. In such cases, the returns become the reward, not of enterprise or initiative, but merely the fact that they were developing the resource at a particular moment in time. The Government of Manitoba is of the opinion that the real owners of the resource, namely the people of the province, are entitled to a realistic share of these unpredicted enhanced value of their resources. To this end, the Government of Manitoba intends to introduce a tax related to price increases in the basic products presently being exploited by our mineral resource industries. This new tax will be calculated to permit the people of Manitoba to obtain a percentage of any price increase beyond basic levels to be established. The basic levels will be established in such a way as to be fairly certain that a reasonable return on original investment capital will be protected. Beyond such reasonable return on original investment, which the government regards as a fair entitlement of any investment, the people of Manitoba will share the benefits of price increases. The base prices referred to and the percentage of return to the people will be established in due course. In order to insure that the imposition of this new tax will not result in companies ignoring or abandoning lower ore grades, it is intended that the tax will be modified in such a way as not to apply where ore grades would not economically justify

their exploitation in the absence of such modification. It is also intended that this public benefit from increased prices will be levied in such a way that rising costs of production will be taken into account.⁴³

In his speech Mr. Green referred to his intention to introduce a husbandry credit which would be paid to companies if they mined ore which was of a lower grade than that specified by the act.

In his summary Mr. Green referred to the government's involvement in mineral exploration and development. He said,

So our policy is two-fold. Existing mining is entitled to a fair return. They have to pay an incremental tax on economic rent. Future mining, the people of Manitoba are going to be involved. The honourable member says if you don't do it, get out and we will. That's not my impression, Mr. Speaker. My impression is that the industry in their brief to the government is very happy with this new notion that a government is willing to put up money, not just take money; that if we are willing to take part of the risk, they are happy to be part of our operation. Well, then if the honourable member doesn't disagree, I'm happy to have at least a convert, that he agrees that what we are doing in mineral exploration, despite the fact that we didn't find a mine yesterday, and as far as I'm concerned we may not find anything for a long time, I'm certain that if we keep digging and we keep investing that the mines will be found. And if the honourable member now agrees with that, I'm very ...

A MEMBER: A joint venture.

MR. GREEN: A joint venture. Well, Mr. Speaker, "joint" can be ninety-nine percent and one percent. I am most happy with joint ventures for one particular reason. Because, Mr. Speaker, I want the expertise that the industry has. Now you can get that in two ways. You can just go ahead and buy it or you can be involved with that. But if I had all their expertise -- I'm being completely selfish in this connection -- if we had all their expertise, then what I said yesterday was quite right, that thirty percent is better than twenty percent, and sixty percent is better than thirty percent -- and 100 percent is best of all.

However, I am a practical man -- (Interjection) -- practical, and reasonable -- for the Honourable Member for Portage -- reasonable. -- (Interjection) -- Well, determine, Mr. Speaker, that we try, at least try to remedy some of the problems which are blatant to everybody, which everybody has indicated they have to do something about, Conservative, Liberal, New Democrat, and somehow have not found the means. Now I don't know whether I have

found it, but I believe that we have moved in the direction of finding it, and the direction that we move in, Mr. Speaker, is an attempt in one area of the resource industry to bring society to a state where there is a better distribution of that return which accrues to capital, that return which accrues to individual initiative and effort, and that return which accrues to the public in terms of economic rent, an area where the public has been on the outside for all of that period up until the present time.

I commend this legislation to the House.⁴⁴

The bills were criticized in the Legislature for the power given to cabinet to establish rates of taxation without consulting the Legislature and for being introduced in the latter stages of the sitting of the Legislature, thereby not giving the opposition sufficient time to study them.

Industry Activities

The development of both Bill 77 and Bill 82 was followed closely by the mining association through newspapers, Hansard and personal contact with members of the government and the opposition.

Copies of Bill 77 which were available first were studied in detail. After Mr. Green introduced Bill 82 for second reading and copies were available, representatives from the association and their consultants, InterGroup Consulting Economists Ltd. (formerly Hedlin Menzies and Associates Ltd. - Winnipeg Office) spent a large amount of time on the weekend reviewing the bill, analyzing it, and considering its implications for the mining industry. A number of questions were raised about the draft legislation and certain problems were identified, it was felt the government could respond to by changing the legislation. William Moore, president of the Mining Association of Manitoba was referred to in a Winnipeg Free Press editorial. The

article said,

When the legislation appeared, mining companies were appalled by a law which they interpreted as giving the government the right to tax more than 100 percent of their profits, control production and put all responsibility in the hands of the provincial cabinet for varying the tax from time to time and between companies.

Realizing that they could not very well argue against higher taxes, they were relieved to find that the bill was badly drafted and could probably be shot down on the basis of awkwardness and the fact that it would discriminate against the smaller operator -- both objections to which they felt the government would listen.⁴⁵

After conducting their analysis and formulating their position - which was to attempt to get Mr. Green to withhold the bill, and allow the industry an opportunity to comment on it and/or participate in redrafting the legislation - their case was presented to Mr. Green.

The meeting on Monday, June 2, 1974, was attended by Mr. Green, and Mr. Cawley from the government; Mr. Bloy, Mr. Moore, Mr. Cain, Mr. Munn, and Mr. Williams from the industry; and Mr. Oaler from the consulting firm. The industry representatives discussed their concerns about the legislation, particularly those such as poor drafting and effect on small companies, which could have a political effect. They also presented a brief to Mr. Green.⁴⁶

The Winnipeg Free Press of June 6, 1974 reported that:

The mining companies which would have been affected by the new legislation had made strong representations to Mr. Green. The companies did not object to increased taxation, but to the mechanics of the Act, the discretionary powers it would have given the Cabinet in varying the tax rate, and the wording which would have subjected the smallest companies to the highest rate of taxation.

It may never be known how strong the objections were, but there are reports that the minister was told that, should the legislation pass, future mining developments in Manitoba would dry up, and present operations would be cut back.⁴⁷

The June 14th editorial story in the Winnipeg Free Press said

that what happened in Mr. Green's office was difficult to say, but indicated that the Manitoba Mining Association:

Denied that the companies threatened to close down some of their present operations but ... said Mr. Green was told that under the legislation, there would be no attempt at further development, that companies would simply mine out their present operations and not seek to continue in business after these were gone. 48

Mr. Green indicated, in a subsequent interview with the author, the companies did not disagree with the principle of what the government was attempting to do, and their criticisms revolved primarily around how the principles were to be implemented. They argued the bill did not do what the minister wanted it to do, and presented their argument in a very detailed fashion. Mr. Green, although not willing to change his mind on the principles of the legislation did agree that certain of the problems of implementation, especially determination of a basic mining year for tax calculations had to be better thought out. Because of these implementation problems, and because the basic royalty had already been increased to twenty-three percent, Mr. Green acknowledged the concerns of the industry and decided to withhold the legislation.

Industry representatives also met with the Progressive Conservative and Liberal caucuses. A letter was also sent to Premier Schreyer.

On June 5, 1974, Mr. Green announced the bill was to be withheld from further consideration by the Legislature.

In making the announcement that the legislation would be withheld and reintroduced later, Mr. Green stressed that because it was new, innovative and without precedent it was understandable that

complex issues requiring further exploration and explanation could arise. He stressed he was anxious the tax be well understood and opportunity be given to deal with any misunderstandings or problems that may arise respecting its implementation.

Opposition leader Spivak congratulated Mr. Green on his decision to withdraw the bill and suggested there were other pieces of legislation that required longer study also. At this point it was reported that Mr. Green muttered, "Go to Hell" from his seat.

The reaction of the industry was surprise Mr. Green had withheld the legislation, happiness he had, and hopefulness they could prevent reintroduction of similar legislation.

The Winnipeg Free Press cartoonist's reaction was to make fun of Mr. Green.⁴⁹

In commenting, Harry Enns, deputy leader of the Progressive Conservative party, said:

The companies, having achieved a postponement with only one meeting, may relax, convinced that they need only lay a few more cards on the table to persuade Mr. Green to back away once more.

Mr. Enns, who says he is willing to concede the expertise the company executives possess in the field of mineral development, is concerned about whether their political expertise is as great. He points out that Mr. Green has conceded nothing in his postponement but time.⁵⁰

Bill 77 received second and third reading before the sitting of the Legislature prorogued.

Developments After Withholding of Bill 82

The Minerals Task Force

Following the legislative session a special group headed by Dr. Bruce Wilson, of the University of Manitoba Geology Department and

a director of Manitoba Mineral Resources Ltd., was appointed to work out revised details of the legislation. Dr. Wilson was appointed, at least in part, because he reflected an industry viewpoint. In their work the group had to work very closely with the various companies to determine how the bill would apply to each of them.⁵¹ Mr. Green said that Professor Wilson had been, "commissioned to go from 'place to place' in the Manitoba mining community soliciting the views of the various companies."⁵²

The task force group met with all the major companies in Manitoba. At one point in late July 1974, a trip was made to northern Manitoba to visit each of the companies. There were also meetings in Winnipeg with representatives of individual companies. In addition the head offices of mining companies in Toronto were visited to obtain details of the financial aspects of the various companies.

The task force developed formulae for implementation of the principles embodied in Bill-82. The meetings with company representatives were for the purpose of discussing the formulae developed and determining whether the companies had the necessary information to use them.

Most of the task force contacts were with individual companies rather than with the Mining Association of Manitoba because of the detailed nature of the subject under discussion. For the same reason much of the discussion took place with technical company personnel such as accountants and tax experts rather than with company executives.

Task force members decided the husbandry provisions in Bill

82 could not be implemented.

The task force completed its work in the late summer of 1974.

Actions by INCO

In the late summer of 1974 INCO began an advertising program to indicate benefits the company provided to Manitoba. They sponsored Winnipeg Blue Bomber football games and Winnipeg Jets hockey games. In October 1974 Mr. Donald E. Munn, President and General Manager of the Manitoba region for INCO became a Corporate Vice-President and moved from Thompson to Winnipeg for "closer more immediate contact with the government."⁵³ Mr. Munn indicated in an interview that, for a period of years, he had been advocating within INCO the need for a greater presence in Winnipeg as opposed to Thompson. The cumulation of government actions and meetings with government personnel ultimately resulted in the decision that he should move from Thompson to Winnipeg to maintain a liaison with the government and present the company's viewpoints on a first hand basis. Mr. Munn has found attempting to influence the government process to be, at times, a frustrating and confusing experience. He said there were few, if any, factors within the control of the business manager which could definitely determine the outcome of the governmental process.

Mineral Disposition Regulations

The new Mineral Disposition regulations which had been under consideration for approximately three years previously were introduced on December 27, 1974. There was substantial industry-government discussion involved during the process of re-drafting these regulations. Major points of the regulations were:

1. The Province will have the option to participate up to fifty percent in any new mineral exploration within Manitoba. All exploration and development programs expected to cost more than \$10,000 a year would be affected.
2. Prospectors whose program is expected to cost less than \$10,000 would be eligible to receive a grant of up to fifty percent of the cost of an approved exploration and development program.
3. A company must obtain a production lease before starting production from a mineral disposition, to run in ten year terms. After a minimum of \$500,000 of exploration expenditures a company can apply for an "explored area lease."
4. Mineral exploration permits are limited to between 24,600 and 115,200 acres. They are valid for three years, providing that at least one dollar an acre is spent on exploration during the first year, two dollars per acre in the second and three dollars per acre in the third year.
5. Claim or claim block certificates are valid for five year periods, subject to an expenditure of five dollars an acre for work within the claim for each of the second, to tenth years and ten dollars per acre for each year thereafter.
6. If the requirements in the regulations are not met "all interest of the holder in a mineral disposition shall cease."

Mr. Green stated that the government would make four million dollars a year available for participation in joint ventures.

Sometime after the regulations were announced David Thomas, president of Sherritt Gordon indicated in an interview that:

I think our attitude to the regulations is going to be that we're going to stop all exploration in Manitoba ... One of the worst things (is that) the government has the right to take any participation up to fifty percent, and then when they define the costs, they have put a fairly narrow description on what they will consider your costs are ... and they'll pay you fifty percent of their definition of costs ... there is no appeal ...⁵⁴

Bill 16 - The Metallic Minerals Royalty Act

After receipt of the report from Professor Wilson's task force, new legislation embodying the formulae developed was drafted.

On March 6, 1975 Mr. Green held a dinner meeting of the Minerals Consultation Committee at the Winnipeg Holiday Inn. After dinner Mr. Green indicated that the new mining royalty bill would be implemented; that the royalty would be based upon investment adjusted for inflation and depreciation; that the basic royalty would be reduced to fifteen percent from the existing twenty-three percent; that the government intended to collect the same amount of money with the new bill; that companies would not be able to average losses from year to year; the husbandry provision from Bill 82 was to be changed to put the onus on mine operators for proper husbandry; results from individual mines of a company would be aggregated; some consideration would be given to the federal government not allowing income tax exemption of royalty payments; and the bill would be introduced in about two weeks.

Following this, a government economist explained the various formulae embodied in the legislation.⁵⁵

Bill 16 received first reading on March 25th but it was not until April 14th that Sidney Green introduced it for second reading.

Initial company reaction to the legislation was favourable. Donald Munn, regional vice-president of The International Nickel Company of Canada said, "It is a good tax bill. It is fair. The government has done an extremely conscientious job."⁵⁶ J.A. MacLellan, acting general manager of Sherritt Gordon Mines Ltd. said, "It's better than we expected. They have made an honest effort to improve legislation. I would have to say that the Manitoba government has been as reasonable as any when it comes to mining legislation."⁵⁷

Later, however, after further analysis of the legislation, the reaction was more negative. David D. Thomas, president of Sherritt Gordon Mines Ltd. indicated, "the royalty and tax systems were 'commercially unacceptable,'" and reaffirmed his company's intention, initially announced in February 1975, to withdraw from mining exploration in Manitoba.⁵⁸

Mr. Thomas went on to say he felt the decision to withdraw from Manitoba was, "'personally embarrassing' since he had been an advocate of joint mining and exploration ventures with the provincial government. His company, he added, is prepared to work with Manitoba but 'we are not prepared to bear more than half the costs in order to retain a fifty percent interest in any property' ... Sherritt Gordon's exploration will now take place in Ontario. Mining at Lynn Lake, Manitoba will be cut back to salvage basis."⁵⁹

The Winnipeg Free Press of May 7, 1975 commented that:

Mining officials have, therefore, withdrawn their earlier comments on the legislation and have substituted a carefully presented analysis of the new law. One such official summed up the presentation, describing the legislation as 'confiscation by taxation.'

The companies are beginning to think that last year's Bill 82, which was introduced in no uncertain language by Mines Minister Sid Green, may have been little more than a smokescreen, the effect of which was to cause any revision to be welcome by comparison. The analysis now available through the Mining Association of Manitoba reveals that most of the undesirable provisions of Bill 82 -- the bill which was withdrawn after introduction -- are alive and well in Bill 16, which is this year's edition.

The companies also believe they have been victimized by the premier. When Mr. Schreyer said Bill 16 had been drafted to avoid penalizing the small companies, mining officials believed him. Now, with the legislation before them, they are convinced that the new law is more punitive to small mines than it is to large ones.

The mining companies, which have already begun to wind down their activities in this province, are convinced that the new legislation will bring with it significant tax increases, tax low-profit mines more extensively than high-profit ones, impose incremental taxation on unprofitable investments and cause a further deterioration in the incentive for the location of new firms in Manitoba.

A major reason for the change in company attitude was the realization of the difficulties associated with establishing the investment base. There was, in particular, a question of whether underground expenditures would be included in the investment base, because for income tax purposes certain underground expenses were expensed and not capitalized.

After introduction of Bill 16 there was substantial contact between company and government representatives at a technical level. For example, with The International Nickel Company Limited, it was felt that contact with the Manitoba government was much more frequent with Bill 16 than it had been previously. The more frequent contact began with the task force headed by Dr. Bruce Wilson in the summer and fall of 1974. Members of the task force met with company representatives in Manitoba and in Toronto. One consequence was to establish contact between government technical people and company technical people. Task force representatives made one visit to INCO in Toronto, but there were other occasions where information was supplied by the company.

When Bill 16 came under discussion, there was again communication between the government people, such as Mr. C.A. Perry and Mr. Robin Bagnall in the Department of Mines, who were working with the details of the bill and company tax people such as Mr. Dave

Craig and Mr. Keith O'Brien. There were some "real breaks and flashes of understanding at the technical level."⁶⁰

It was felt that INCO's efforts had some effect on the final legislation and that they had contributed to amendments made by the government. However, the company was still far from satisfied with the legislation and felt that the tax rate was much too high. With increases in Manitoba taxes, the Thompson operation becomes less attractive as a company investment compared to other opportunities.⁶¹

David Thomas of Sherritt Gordon indicated that when Bill 16 was published a copy was obtained. It was studied in detail by Mr. De Roche, chairman of the board of Sherritt Gordon and lawyer by profession. A question was raised about how a portion of the tax would be collected. Mr. J.S. Anderson, Manitoba's deputy minister of Finance, was contacted by telephone for an explanation. It was apparent that the mechanism for collection of the tax had not been considered in drafting the bill.

Subsequently, Mr. Thomas and Mr. De Roche met with Mr. Green to discuss Bill 16. They argued for an averaging provision for payment of taxes. The argument was based upon an analysis of taxes payable, using different assumptions about when the income was earned over a ten year period. Mr. Green said that an averaging provision, given the analysis was, "reasonable." However, when he found out that Messrs. Thomas and De Roche were arguing for a long-term averaging provision, he changed from saying the argument was "reasonable" and said it was "interesting." Subsequently, a three-year averaging provision was introduced.⁶²

In May 22, 1975 the Winnipeg Tribune carried an article

quoting H. Bloy, secretary of the Mining Association of Manitoba as saying in a speech to the Winnipeg Rotary Club that the mining legislation was "unbelievable." He said Bill 16 was "worse than last year's Bill 82 which was withheld for redrafting following industry protests." He also said of Mr. Green that "we didn't believe him then" when he said Bill 82 was a pioneering effort to achieve fairness in mining taxation "and we still don't." Bill 16 remains "unworkable and unacceptable."⁶³

Mr. Bloy later wrote to Mr. Green and indicated that he had been misquoted by the Tribune reporter.

In his speech closing debate on second reading of Bill 16, Mr. Green referred to the initial favourable comments on Bill 16 by the Mining Association of Manitoba, the press and the opposition and how these later changed to criticisms of the bill. He accused the press and the opposition of saying whatever the industry told them to say. He said it was like a game of "Simon says." He also indicated that industry representatives were not able to make up their minds on what kind of legislation was acceptable to them. He also criticized Mr. Bloy's remarks of May 22nd. Excerpts from Mr. Green's speech are:⁶⁴

Nobody from the Opposition is willing to listen to what the representatives of the people say, what the Ministers of the Crown, who happen to be, whether they like it or not, the spokesman for the people of Manitoba: what they say that the bill is for; what they say that the bill will do; what they say the objectives were; what they say what the postponement was for -- none of these things count, because it's not the Ministers of the Crown that they will listen to, but what Simon says they will listen to.

With regard to last year's bill, they (the opposition and the mining industry) are now saying it should be the concept of this year's bill. And I cannot be a dog forever chasing my tail. We

can try to find out what the legitimate complaints of the industry are but we cannot, Mr. Speaker, try to satisfy the industry as was indicated by the Leader of the Opposition, who said that we did not seek the support of the mining companies. We sought to discuss with the mining industry what they felt were the problems inherent in the bill. We gave weight to many of those questions. And I can go further to show how we did that. But after they said that it was good, they changed their mind and said it was bad. The first thing we said we would do is to enact the volumetric tax, which would be a tax on the volume regardless of what the profit level. That was our announcement in 1974. They said, please, don't have a volumetric tax, have a tax on profit. So we introduced Bill 82 which was a tax on profit. It had an historical base plus an incremental base. So they said, please, do not have an historical base, have an investment base. We then produced an investment base; they said please don't have an investment base, have a base which establishes our investment and never lets it reduce.

Now I really think that that is a legitimate argument on behalf of the industry, but I do not know why because Simon says it, it makes it right. And when the Executive Director (Mr. Bloy) of the mining industry, who I have never sought to get agreements with, but who I have tried to relate to as a human being, said that we didn't believe him last year when he said that he wanted a fair tax, and we don't believe him this year, then I say to the mining industry, I reply in kind, that I as a representative of the people of Manitoba, a Minister of the Crown who speaks for the people in that respect, whether he likes it or not, says the people of Manitoba do not believe what the mining industry said last year and they do not believe them this year, because the mining industry has forever changed its position with regard to this piece of legislation. And if that is the way they wish to choose to deal with their representative then, Mr. Speaker, I say that the mining industry never put this government in power; they were against us before we came here, they are against us now, they will be against us whether we stand here. And whether they believe me or not is of no consequence to me, Mr. Speaker, because I don't believe them when they talk in that way. And they have no business talking in that way, because I've said nothing. -- (Interjection)-- Mr. Speaker, I have said nothing which entitles Mr. Bloy to make that kind of remark. And if that is the way in which the debate is conducted, then I say, Mr. Speaker that he has chosen his terms, I am ready to pick them up and continue on that basis. And if that is the way they want it, that is the way they will have it. The people of Manitoba, for whom I speak at this moment, do not believe the Mining Association of this province and have good reason not to believe them.

In his speech Mr. Green also indicated that amendments would be made to Bill 16 to restore the processing allowance, introduce a

three year averaging provision, and to provide relief if the federal government continued to make royalty payments non-deductible for income tax purposes.

After this "villification" of the mining industry, as it was referred to by one industry executive, and the indication that amendments were to be introduced the decision was made to not undertake further actions respecting Bill 16. There was a hesitancy to risk further annoying Mr. Green when it looked like amendments were to be made anyway. As a consequence no representations were made by the industry to Law Amendments Committee which considered the bill.

Bill 16 received third reading on June 12, 1975. Amendments introduced included: restoration of a processing allowance, and as a trade-off an increase in the tax rate from 12.5 percent to fifteen percent; a change in the tax period for royalties from twelve months to thirty-six months; amendments also eliminated certain discretionary governmental powers and changed procedures to ensure proper husbandry of resources.

Footnotes

¹ Government of Manitoba, Report of the Task Force on Manitoba Minerals Policy, March 1974, pp. 1, 2.

² Eric Kierans, Report on Natural Resources Policy in Manitoba, prepared for the Secretariat for the Planning and Priorities Committee of Cabinet, Government of Manitoba, February 1973, p. 32.

³ Ibid.

⁴ An Analysis of the Kierans' Report on Mining Policy: Book 2: An Analysis of Major Topics, prepared for the Mining Association of Manitoba Inc. by Hedlin Menzies and Associates Limited, p. 29.

⁵ Ibid., p. 54.

⁶ Ibid., pp. 34 and 36. Compiled by Hedlin Menzies and Associates Ltd. from confidential data supplied by Falconbridge, Hudsons Bay, Inco and Sherritt Gordon.

⁷ Material on the history of mining industry policy in Manitoba was taken from the Report of the Task Force on Manitoba Minerals Policy, released by the Government of Manitoba, March 1974, pp. 20-24.

⁸ Manitoba to 1980, Report of the Commission on Targets for Economic Development, Government of Manitoba, March 1969, p. 107.

⁹ Ibid., p. 111.

¹⁰ Province of Manitoba, Legislature, Debates and Proceedings, Legislative Assembly of Manitoba, April 19, 1966, p. 2041.

¹¹ There were a number of people in Manitoba questioning whether the province was receiving an adequate return from the mining industry. In the authors recollection, and from talking to other people about the public attitude to the mining industry in the mid-1960's it was noted that the subject was widely discussed.

¹² Debates and Proceedings, Legislative Assembly of Manitoba, April 14, 1966.

¹³ The Government of Canada, Report of the Royal Commission on Taxation, Volume 4, 1967, p. 327.

¹⁴ Ontario's decision to raise needed revenue by additionally taxing mining companies was indicated in an interview of Sidney Spivak Q.C., leader of the Progressive Conservative party in Manitoba.

¹⁵ Excerpt from memo by B. Backler, Senior Mining Analyst, Richardsons Securities, to Institutional Sales Managers, December 29, 1972.

¹⁶ Interview with H. Bloy. Although the date of the meeting was not known it was apparently within the month following the election.

¹⁷ Winnipeg Free Press, June 22, 1970.

¹⁸ Interview with H. Bloy.

¹⁹ The statement was taken from the Policy Review, The Department of Mines Resources and Environmental Management, Planning Secretariat, Government of Manitoba, January 1972, p. 27.

²⁰ Debates and Proceedings, the Legislative Assembly of Manitoba, May 27, 1971.

²¹ T.K. Rymes and G. Chuchman, The Pricing of Mineral Developments in Northern Manitoba, August 16, 1971, from Policy Review - The Department of Mines, Resources and Environmental Management.

²² Interview with an industry source.

²³ Interview with Mr. Munn, June 1975.

²⁴ Interview with Mr. Green, July 1974.

²⁵ Mimeographed policy statement received from Mr. Green.

²⁶ The recommendations are included in Appendix E as Exhibit E.1.

²⁷ Winnipeg Free Press, March 1, 1973.

²⁸ Globe and Mail, February 28, 1973.

²⁹ Guidelines for the Seventies, The Government of Manitoba, March 1973, p. 109.

³⁰ Ibid., p. 114.

³¹ The reactions were obtained from two people who were involved with the interdepartmental task force.

³² The full text of the recommendations of the report is included in Appendix E as Exhibit E.1.

³³ Debates and Proceedings, the Legislative Assembly of Manitoba, January 31, 1974, p. 9.

³⁴ The full text of Mr. Green's policy statement is included in Appendix E as Exhibit E.3.

³⁵ Debates and Proceedings, the Legislative Assembly of Manitoba,
March 21, 1974.

³⁶ Ibid.

³⁷ Ibid., March 25, 1974, p. 1800.

³⁸ Excerpt from letter from J. F. Cawley to author, June 9, 1975.

³⁹ The brief in full is included in Appendix F as Exhibit E.4.

⁴⁰ Interview with Mr. Sidney Green, July 1974.

⁴¹ Interview with Mr. J. F. Cawley, June 1974.

⁴² Interview with Mr. Sidney Green; July 1974.

⁴³ Debates and Proceedings, the Legislative Assembly of
Manitoba, May 31, 1974.

⁴⁴ Ibid., p. 4159.

⁴⁵ Winnipeg Free Press, June 14, 1974.

⁴⁶ Interview with industry representatives attending the
meeting.

⁴⁷ Winnipeg Free Press, June 6, 1974.

⁴⁸ Winnipeg Free Press, June 14, 1974.

⁴⁹ The cartoon is included in Appendix E as Exhibit E.6.

⁵⁰ Winnipeg Free Press, June 14, 1974.

⁵¹ For an indication of the willingness of companies to work
with Dr. Wilson see Appendix E, Exhibit E.7.

⁵² Winnipeg Free Press, July 15, 1974, p. 3.

⁵³ Ibid., November 19, 1974.

⁵⁴ Quoted in a private report prepared for Sherritt Gordon,
February 1975.

⁵⁵ Appendix E, Exhibit E.8 contains the government handout
distributed that evening.

⁵⁶ Financial Times of Canada, April 28, 1975.

⁵⁷ Ibid.

58 Financial Times of Canada, May 5, 1975.

59 Ibid.

60 Interview with Mr. Shane MacKay, Vice President, The International Nickel Company, June 1975.

61 Ibid.

62 Interview with Mr. David Thomas, June 1975.

63 Winnipeg Tribune, May 22, 1975.

64 Debates and Proceedings, the Legislative Assembly of Manitoba, May 27, 1975, pp. 3066-3067.

Chapter 10

EVALUATION OF AND COMMENT UPON BUSINESS PARTICIPATION IN THE PROCESS OF FORMULATING MANITOBA MINERAL POLICY

Introduction

This chapter examines business participation in the Manitoba mineral policy case in the same manner it was examined in the automobile insurance and drug substitution legislation. An increase in government decision power in the mining industry relative to that of the companies was observed. The inability of companies to prevent this increase was noted. It was also observed that there were a variety of factors, some controllable by business, and some not, which contributed to the relative ineffectiveness of business managers to prevent, or at least have a more positive influence upon the changes.

The uncontrollable factors related to characteristics of the process of government policy formulation.

Factors controllable by business managers related to the interaction of business managers with the government process. In this regard it was indicated that mining industry managers participated at most stages of the process, but that their actions, particularly at the early stages, tended to be directed at politicians rather than at the civil servants responsible for formulation of the policy. It was also observed that many of the actions taken were not persuasive to the

government, although there were some that were effective.

Factors responsible for the types of business actions taken were the characteristics of the business managers responsible for taking action and the manner of preparation for action.

Changes in the Provincial Environmental System
Respecting the Mining Industry

The relationship between the Government of Manitoba and mining companies changed dramatically from the 1960's to the early 1970's. In the 1960's, government policy was to encourage as much mining activity as possible. To provide this encouragement measures such as the Mining Exploration Assistance Act were implemented. Other encouragements mentioned by the Committee on Manitoba's Economic future or the Targets for Economic Development report included programs of mapping and exploration, promotion, dissemination of data, locating new industrial minerals, reducing exploration and development costs, providing essential capital infrastructure investments and providing greater mortgage flexibility for accommodation needs. All these measures were advocated, or undertaken based upon private mining companies undertaking the work. In turn, private mining companies responded by undertaking substantial activity in Manitoba. Total diamond drilling in Manitoba was 911,700 feet in 1969 and 1,076,200 feet in 1970 compared to 584,300 feet in 1963.

Employment by the industry went from 4,100 in 1966 to 5,700 in 1969 to 6,400 in 1970 to 5,600 in September 1972.

When the NDP took office in 1969 the government approach to the mining industry began to change. The attitude changed from a belief that private development of mineral resources provided benefit.

to the province and should be continued, to a belief that the province was not receiving a sufficient return from its mineral resources. As a consequence, mineral royalty taxes were increased twice, in 1970 and in 1974. A provincial exploration company was created to undertake mineral exploration in Manitoba and a regulation was introduced which gave the provincial government the option of fifty percent ownership in any exploration or development work undertaken by private mining companies in Manitoba. Legislation to base royalties upon perceived excessive mining profits and to control the quality of ore mined was introduced in 1974, however, it was withheld before it was passed. The same legislation introduced and passed in 1975 relaxed the husbandry provision, but based the royalty upon a company's return on investment. After return on investment reached a certain level the royalty increased.

One apparent consequence of the increased government involvement was a decrease in exploration activity in Manitoba by private mining companies. This decrease was demonstrated by the fall in feet of diamond drilling for 1972. There were also decreases in exploration activity in other provinces in Canada, but the Manitoba government's policies were related to the decreases in activity there as indicated by Mr. David Thomas' comments.

In summary, the government assumed a more prominent position in mineral industry activity. The position of the mining industry in terms of exploration activity, employment and general control over its own operations declined. The effect upon the public of the changes was uncertain, because although, in the short run, more revenue was being obtained from the mining industry, exploration activity was :

down. The long run benefit to the province hinges upon the success of the governmental exploration activity in finding and developing new mining opportunities.

Influence on Changes by Mining Industry Managers

In general, mining industry managers were powerless to prevent the changes which saw the government obtain more control of the industry at their expense. There was one instance in particular, the decision of government to withhold Bill 82 in 1974, where industry managers were instrumental in delaying a governmental action. This was regarded as an effective action, but subsequent reintroduction of the legislation in 1975 indicated the actual effect was primarily in the detailed aspects and not the principle of the legislation. In addition the tax rates introduced in 1975 were still regarded as too high although industry managers's actions did result in some amendments.

It was observed that there were two types of factors responsible for the failures of business managers to prevent changes which were desirable. One type of factor was not directly controllable by business managers. These were attitudes possessed by, positions advocated by, and decisions made by other groups in the process of government policy formulation.

The actions taken by mining industry managers to influence the attitudes of, positions advocated by, and decisions made by other participants in the process were the second set of factors important to the outcome of the process. These were factors which were controllable by business managers.

Understanding the non-controllable factors, and their effect on the outcome required analysis of the process of government policy formulation. Understanding the reasons for the effect of business actions on the process required an analysis of business action in terms of how they related to the process of government policy formulation. These considerations comprise the following two sections of the chapter.

The Process of Government Policy Formation

Two aspects of the process of government policy formation are considered. The first is the stages of the process. The conclusion of the previous analysis chapters, that the model of stages of the process of government policy formulation proposed in this study was applicable to the actual process, was once again supported. The nature of the process of decision at various stages of the process was again observed to be political in situations which were unique, and organizational in routine situations.

Stages of the Process of Government Policy Formulation

The stages of the process of government policy formation outlined in the theoretical chapter of the book were observed to provide a good description of the various stages of the process of government policy formulation. The various stages as they related to the mining policy case are briefly outlined here.

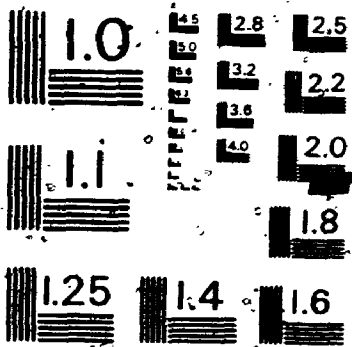
1. Societal Need

Factors contributing to the belief that mining companies were not returning an adequate amount to the public were the

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MICROSCOPY RESOLUTION TEST CHART
NATIONAL BUREAU OF STANDARDS-1963-A

competition among governments for exploration activity, ecological concerns arising in the late 1960's, worldwide commodity price increases in 1973 which resulted in concern about economic rent or super profits, the attitude to mining companies in other countries such as Chile, and the election of the NDP government in Manitoba.

2. Recognition of Need: Mid 1960's

Perceptions of a need that mining companies were not returning an adequate amount to the public were seen in the Carter Commission report. There were also individuals in Manitoba in the 1960's who claimed that mining companies were not making an equitable contribution to the provincial economy compared to what they were taking out. Statements of concern about the contribution of companies to the province by Saul Cherniack indicated recognition of a need by at least some sectors of the Manitoba public.

3. Articulation of Demand: Late 1960's

Speaking in the Legislature Mr. Cherniack called for a greater contribution to Manitoba by mining companies. In the 1969 election campaign, Mr. Schreyer advocated a northern development corporation. The policy statement at the 1970 NDP convention also represented an articulation of a demand for action with respect to the mining industry.

4. Decision to Proceed with Legislation

A general decision to proceed with legislation in the mining area was made shortly after the NDP came to power. This was evidenced by the legislation and other activity in the area such as the amended royalty taxes, natural resources corporation, and the allocation of funds for exploration by the government

company.

5. Determination of Nature of Legislation

- (a) After the decision to proceed with legislation there were a number of different inputs to the determination of its nature. Two of the first were the Planning and Priorities Committee studies, in 1970 by Framingham and Rivkin, and in 1971 by Rhymes and Chuchman. The 1970 policy statement of the NDP convention was also an early input as was the statement by Mr. Green in October 1972.

The major development at the "Determination of Nature of Legislation" stage was the report done by Eric Kierans. Although it did not lay out specific legislative plans it did provide a catalyzing force for the task force on Manitoba mineral policy which laid out specific proposals.

- (b) After Bill 82 was withheld Professor Wilson's task force had the responsibility of determining how the principles of the bill could be implemented. It was a return to the determination of legislation stage. The task force completed its work in the summer of 1974.

6. Drafting of Legislation

- (a) This was done by a drafting committee composed of Mr. J. Cawley and Mr. A. Mackling in March, April and May of 1974.
- (b) This was completed after Professor Wilson's task force report was submitted.

7. Legislative Consideration

- (a) Bills 77 and 82 were introduced for first reading on May 27, 1974. Bill 77 was considered for second reading from May 28

to June 7, 1974. Bill 82 was introduced for second reading on May 31, 1974 but was withheld from further consideration on June 5, 1974 after consultations between Mr. Green and industry representatives. Bill 77 was considered by committee June 8 to 10, 1974 and received third reading on June 11, 1974.

- (b) The Metallic Minerals Royalty Act was given first reading on March 21, 1975. Second reading was introduced on April 12, 1975. Second reading finished on May 22, 1975. Committee hearings were in early June and third reading was on June 12, 1975.

Comments on the Stages of the
Process of Government Policy
Formulations

The mining case material indicated it was appropriate to look at the process of government policy formulation as involving a number of stages. It indicated there were different stages to the process of government policy formulation spread over a period of time, and that these stages had different characteristics. Therefore, describing activity at one stage would not suffice as a description of the overall process.

The manner in which Bill 82 was withheld at the second reading stage for further study again indicated the iterative nature which the process could assume upon occasion. It was apparent that it took a certain amount of effort or pressure to delay the process or to get it to cycle back to a previous stage. In this case it was a meeting in which shortcomings in the legislation were pointed out as contrasted

to the automobile insurance case where it was intense pressure from the industry and the public. Effort is required because there is a great deal of momentum to be overcome because of commitments made by a large number of people.

The Nature of the Process of Government Policy Formulation

This section examines the nature of the decision process at various stages of the process of government policy formulation. Factors examined are the primary determiners of outcomes, the major factors influencing decisions, the types of decisions made and the nature of the decision process at various stages of the process of government policy formulation.

Different Determiners of Outcome at Different Stages

There were decisions made at each stage, except the first, of the process of government policy formulation which affected the direction and outcome of the process. The primary determiners of outcomes were different at various stages of the process and the influences they were subject to varied from stage to stage.

At the initial, "Societal Need" stage there were no specific decisions. The need evolved from a set of circumstances including the attitude of the public to large companies, the perceived inequitable return to the public from the mining companies, the increase in world commodity prices, political developments respecting mining in other governmental jurisdictions and ecological considerations to name some of the more important.

At the "Recognition of Need" stage the decision was, in effect

that, there were problematic issues respecting the mining industry. From the viewpoint of the NDP politician the need was to obtain a greater return from the mining industry for the public. The problem, recognized by Progressive Conservative and Liberal politicians and civil servants, was how to stimulate increased mining activity. Companies recognized no problems in their political environment, being more concerned with mining activities than political considerations. What political problems did arise were easily solved by contact with the premier or minister of mines (Exhibit 10.1).

"Articulation of Demand" followed the same pattern as "Recognition of Need." The different interested parties each articulated different demands which they formulated themselves. Spokesmen included Saul Cherniack for the NDP, Sterling Lyon for the Progressive Conservatives and the heads of the various mining companies for the industry. Demands articulated were directly related to the problems identified above (Exhibit 10.1).

The decision to proceed with legislation was made by the cabinet. The decision reflected the platform position of the NDP and the long held conviction that mining companies did not provide an adequate return for the public resources they employed in Manitoba.

For the "Determination of Nature of the Legislation" to be introduced the primary determiner of outcome was J.T. Cawley, deputy minister of Mines, Resources and Environmental Management. He was influenced by Mr. Green, the minister, by representatives of the Planning and Priorities Committee, his own department, the Department of Industry and Commerce, and by the Kierans report to name the most significant.

Exhibit 10.1

Outcomes, Influencers and Decision Makers at each Stage of the Process

Stage	Outcome of Stage	Primary Determiner(s) of Outcome	Influencer(s)
1. Societal Need	A latent need.		
2. Recognition of Need	A number of different groups with different impressions of the problem.	People within each group.	Others in the group.
3. Articulation of Demand	Calls for different actions by different groups.	People within each group.	Others in the group.
4. Decision to Proceed with Legislation	Decision to review policy in general by means of initial planning and priorities committee.	Cabinet.	Party convention; party's political position.
5. Determination of the Nature of the Legislation	(a) Decision to introduce royalty taxation bill. (b) Report of the Wilson task force.	(a) J.T. Cawley for Bill 82. (b) Professor Wilson	(a) Members of government departments, Klerans, Mr. Cawley, Mr. Green, Mining Industry managers, other task force members

Exhibit 10.1 (continued)

Stage	Outcome of Stage	Primary Determiner(s) of Outcome	Influencer(s)
6. Drafting	(a) Bill 82 in printed form. (b) Bill 16 in printed form.	(a) Mr. Cawley and Mr. Mackling. (b) Attorney Generals Office.	(a) -- (b) Mr. Cawley Department of Finance.
7. Legislative Consideration Bill 82	(a) First Reading Second Reading	Introducing the bill. Bill 82 - withheld.	-- -- Industry rep- resentatives.
Committee Third Reading		Sidney Green	-- --
Bill 16	(b) First Reading Second Reading	Introducing the bill. Acceptance in principle and decision to make some amendments.	-- -- Industry managers, Department of Finance rep- resentatives.
Committee	Reporting bill back to Legislature.	Mr. Green.	--
Third Reading	Passage in Amended Form	Committee. Legislature.	-- --

Drafting the legislation was the responsibility of Mr. Cawley and Mr. Al Mackling. Mr. Green suggested some changes before he introduced it to the Legislature. However, the bill had been printed and there was not time to make changes before introduction to the Legislature.

The decision at first reading was automatic.

The decision to withhold the Bill 82 legislation at the second reading stage was made by Mr. Sidney Green. He was influenced in this decision by the Mining Association of Manitoba Inc. (Exhibit 10.1).

This analysis indicated different primary determiners of outcome at various stages of the process. In addition, it indicated the variety and change in the groups who were influencers at the different stages.

Nature of the Decision Process at
Various Stages of the Process of
Government Policy Formulation

The three models of the process by which decisions were arrived at were the political model, the organizational model and the rational model. The model which provided the greatest insight into the nature of decisions at most stages of the process of government policy formulation was the political model (Exhibit 10.2).

Societal need. Arose as a result of fundamental environmental change and it existed for some time before action was initially taken. No specific decision characterized this stage. Events just evolved to a point where a problem existed.

Recognition of need. Political groups such as the NDP perceived the problem as one of a relatively small return to the

Exhibit 10.2

Basic Nature of the Process at Various Stages

Stage	Basic Nature of Process		
	National	Organizational	Political
1. Societal Need	-- No Decisions --		
2. Recognition of Need			*
3. Articulation of Demand			*
4. Decision to Proceed with Legislation.			*
5. Determination of Nature of Legislation			*
(a)			*
(b)	*		
6. Drafting of Legislation			
(a)	*		
(b)			
7. Legislative Consideration			
1st reading (a)		*	
(b)		*	
2nd reading - Bill 82 (a)			*
(b)	*		
Committee (a)			
(b)			*
3rd reading (a)			
(b)			*
8. Formulation of Regulations			

province from mining activities. The civil service and the Progressive Conservative government saw a need to stimulate greater private sector activity in mining. The mining companies saw no need to make a greater return to the province. They saw instead a need to prove they were making a contribution (e.g., INCO Study by Hedlin Menzies on the return to the province from INCO's Thompson operations). With the various sides interpreting the issue in different manners this stage was best understood in terms of the political model.

Articulation of demand. NDP supporters articulated a demand for a greater public return from the industry through taxation or ownership. The companies wanted to know what the government position was to be; and they indicated they would prefer less, or the same, government involvement rather than more. The outcome of the stage was a statement of positions from the various groups and a commitment to these positions. Because there was a situation with various groups articulating different positions the stage was best understood in terms of the political model.

Decision to proceed with legislation. The initial decision to review the mining industry was a direct extension of the NDP party platform. It was best understood in terms of the political model because although it just transformed an intended move into an actual move, it was not possible before the NDP gained power in Manitoba.

Determination of nature of legislation. The outcome of this stage was the decision to introduce Bill 82. Two decision groups, the interdepartmental task force and the cabinet were involved. The key man, however, was Mr. Cawley. His personal experience was a major determinant at this stage.

Given the indicated differences of opinion between different government departments, the difficulty of reaching a consensus, and the influence of Mr. Cawley within the task force the process at this stage was best understood in terms of the political model.

Drafting of legislation. Mr. Cawley was chairman of the drafting committee. Mr. Al Mackling was engaged as a solicitor for the process. The stage involved transposing the recommendations of the interdepartmental task force into legislation. The rational model provided the greatest insight into this stage because it involved drafting legislation to satisfy a set of pre-specified goals.

Legislative consideration. First reading was a routine, formal procedure. It was best understood in terms of the organizational model.

The bill was withheld at second reading by Mr. Sidney Green after a meeting with the Manitoba Mining Association. The mining association representatives indicated their objections to the legislation and argued their case on the basis of technical problems with it. This pressure resulted in Mr. Green's decision to withhold the legislation. The political model provided the greatest insight into this stage of the process.

Summary of the Process of Government Policy Formulation

Determination of nature of legislation. The activities of Professor Wilson's task force were concerned with translating the principles of Bill 82 into an implementable form. They had a specific goal and their actions were directed toward accomplishing it. The rational model provides the greatest insight into this stage of the

process.

Legislative consideration. First reading of Bill 16 was once again a straightforward routine step, best understood in terms of the organizational model. Debate and passage of Bill 16 by the Legislative Assembly was dependent upon the voting power of the NDP majority. The political model provides the greatest insight into this aspect of second reading. However, there was considerable discussion of aspects of the legislation between government and company technical personnel which resulted in certain amendments. These discussions and subsequent amendments were best understood in terms of the rational model. The committee and third reading aspects of "Legislative Consideration" were best understood in terms of the political model because passage at both of these stages depended upon the NDP majority.

The stages model of the process of governmental policy formulation applies well to this case material. The political model of decision making provides the greatest insight, or understanding, at more of the stages of the process of governmental policy formulation than either of the other models.

It was seen that many of the decisions made at various stages of the process, particularly after the "Decision to Proceed with Legislation" stage were not made, and therefore were not directly controllable by business managers. There was some influence exerted by business managers at the latter stages, particularly at second reading.

Participation by Mining Industry Managers in the
Process of Government Policy Formulation

The failure of mining industry managers to prevent undesirable

system changes was a major observation of the first part of the chapter. This portion is concerned, as indicated above, with outlining the nature of business participation in the process.

The points in the process of government policy formulation where business actions took place were examined. In addition, a selection of business actions was examined to indicate the reasons for their effectiveness or ineffectiveness.

Point of Action by Business Representatives

This section includes an analysis of the points in the process of governmental policy formulation (i.e., at what stage and to whom) representatives of the mining industry directed their actions. In terms of stages of the process, actions by the mining association (Exhibit 10.3) were well distributed, with the greatest number of actions at the "Determination of the Nature of Legislation" and "Legislative Consideration" stages. It was of interest to note the increase in actions at these stages when Bill 16 was considered. This was due to the significant increase in contacts between company and government technical representatives initiated by the government.

In terms of the types of people to whom industry actions were directed, it was apparent that most were either directly or indirectly at politicians until the withholding of Bill 82 (Exhibit 10.4). This was also indicated in the case by the spring 1974 newspaper quote from a mining association representative where they said that, "mining people would prefer to deal at the cabinet level on policy matters, although opinion varies as to whether they would prefer to deal with

Exhibit 10.3

Stage of Action by Mining Industry Managers

Stage	Number of Recorded Actions
1. Societal Need	0
2. Recognition of Need	5
3. Articulation of Demand	2
4. Decision to Proceed with Legislation	2
5. Determination of the Nature of Legislation	
(a)	5
(b)	20
6. Drafting of Legislation	
(a)	0
(b)	1
7. Legislative Consideration	
First reading (a)	0
(b)	0
Second reading (a)	2
(b)	20
Committee (a)	0
(b)	0
Third reading (a)	0
(b)	0

Source:

Appendix F, Exhibit F.1.

Exhibit 10.4

Recorded Number of Actions
Directed at Various Targets

Audience	Number of Recorded Actions		
	Before Bill 82 Withheld	After Bill 82 Withheld	Total
Bureaucrats	3	35	38
Politicians-Bureaucrats	3	0	12
Politicians	7	5	12
Public-Politicians	3	0	3
Legal	1	0	1

Source:

Appendix F, Exhibit F.1.

Mr. Schreyer or Mr. Green." This indicated a lack of awareness of the role played by the interdepartmental task force, and in particular by Mr. Cawley in formulating Bill 82.

After withholding Bill 82 Dr. Wilson and his task force had a significant amount of contact with company personnel (Exhibit 10.4). The relationships developed by the task force contributed to the amount of contact at the legislative consideration stage.

Persuasiveness of Action

The previous section dealt with the distribution of actions by mining industry managers at the various stages of the process of government policy formulation. In addition to a concern about whether there were actions at various stages the research was also concerned with whether these actions had a positive, negative, or neutral impact. An action was viewed as persuasive if a person or a group, toward whom/which an action was directed issued a statement (either publicly or to researcher) that they felt the action had an effect on the decision concerning the issue.

It was found, as for the other industries studied, that mining industry managers undertook a mixture of persuasive and non-persuasive actions. Once again it was obvious that the key to persuasive action was to convince people, or have them come to believe, that what the business manager wanted was in their own best interest. Or, to repeat what Neustadt said, "what they ought to do for their own sake and on their own authority." The key to understanding the persuasiveness of actions was to have an understanding of the process of government decision and the issues, people and developments associated

with it: Simply stating an industry preference or position without considering, or using as a base, the desired, preferences and pressures of the government decision maker and how the government would react to an industry statement was not persuasive.

Effective actions selected for examination were the meeting of the mining association with Mr. Green which resulted in Bill 82 being withheld and the contacts established between industry and government technical personnel at the "Legislative Consideration" stage of Bill 16.

Ineffective actions selected for examination were the Hedlin Menzies brief, An Analysis of the Kierans' Report presented to the interdepartmental committee, and the speech by Mr. Bloy to the Winnipeg Rotary Club in May 1975.

The Meeting with Mr. Green

The meeting with Mr. Green was regarded as effective because it led to withholding Bill 82 from the order paper. The meeting promoted the decision because the industry representatives were able to raise sufficient concern about some of the details of the legislation in Mr. Green's mind, especially concerning the definition of the basic mining year, that Mr. Green decided to withhold the legislation.

~~The apparent key to the success of the action was that it was~~ presented in the form of an argument that was important to Mr. Green and therefore also persuasive to him. It was important to Mr. Green that the legislation be technically correct for political reasons and because he was interested in maintaining relations with the mining

industry. The argument presented by the representatives of the mining association was persuasive because it was well illustrated, and in fact, did point out potential difficulties, and unanswered questions with the bill.

Establishment of Technical Contacts

The increase in contacts at a technical level contributed to the amendments made in Bill 16. When industry tax people, such as those from INCO discovered difficulties with interpretation of certain aspects of the bill they were able to contact government people for explanation. If it turned out that there was some ambiguity the government contact was the appropriate person to arrange for changes.

The questions posed by company representatives were of interest to the government people because they desired to have legislation which was as clear as possible. Consequently when ambiguities were pointed out the audience was receptive.

Mining Association Brief to the Interdepartmental Task Force

This brief was characterized as ineffective as a vehicle for discrediting the Kierans' report for a number of reasons. In the first place, certain key government representatives, including Mr. Schreyer and Mr. Green had indicated their disagreement with the Kierans' recommendation that the mining industry be gradually confiscated by the government. Mr. Cawley was also in disagreement with that recommendation.

The brief for the Mining Association, as prepared by the Winnipeg office of Hedlin Menzies and Associates Ltd., was based in

large measure on the argument that they were supplying new data from confidential company sources that were not used in the Kierans report. Two reactions were heard to this: (a) that the researchers compiling the Kieran's document did have access to the same confidential information from documents filed by the mining companies with the government, and (b) that the argument that government does not have as much information as the companies is an old one, that lacks credibility. It was stated that the arguments presented in the report except for the advocacy of joint government-industry projects were all familiar ones which had been previously seen by government representatives.

The reason for the actions ineffectiveness was that it did not present a persuasive argument to the government. The case could not be presented with sufficient credibility to convince government representatives. Lack of credibility was a bargaining disadvantage to the industry.

It could be seen in the automobile insurance and drug cases as well that government representatives tended to discount statements by industry representatives which sounded traditional and self-serving to the industry. This also detracted from the genuine and sincere attempts to participate helpfully. In other words, credibility was a good bargaining advantage to have.

A major value of the action was that it resulted in the industry, (a) undertaking an assessment of the situation it faced, (b) learning more about the governmental process and thinking as a basis for future action, and (c) starting to think about industry options.

Mr. Bloy's Speech

Mr. Bloy's speech of May 1975, in which he was critical of Bill 16 and Mr. Green attracted the ire of Mr. Green in his speech ending second reading of the bill. Mr. Green's reaction also contributed to the industry decision not to undertake further action at the committee stage of Bill 16.

The reasons for Mr. Green's displeasure are obvious. He had been making an effort to communicate with mining industry representatives and take their views into account. Mr. Bloy's speech indicated to him that the industry did not appreciate or understand his efforts.

Inputs to Business Action

This chapter has, to this point, indicated the inability of mining industry managers to prevent system changes undesirable to them. It has discussed the nature of the process of government policy formulation and business participation in it. It was indicated that, while the mining industry did participate at most stages there were a mixture of persuasive and non-persuasive actions.

This section examines some of the inputs into business actions, namely the people responsible for formulating and taking them, and the process of deciding upon them.

It was observed that industry representatives were not particularly experienced or trained in problems of dealing with government prior to their recent dealings in Manitoba. It was also observed that industry actions tended to be formulated in an unplanned fashion.

Qualification of Principal Industry Participants for Dealing with Government

Mr. A. Powis, recent president of the Mining Association of Canada and president and chief executive officer of Noranda Mines Ltd., felt that many heads of major Canadian corporations, including mining companies, were misplaced in today's political environment because they were not trained to deal with government.

In Manitoba prior to the 1969 election, most of the government related issues were handled directly through the Premier. This was particularly the case until 1967, when Mr. Roblin was premier. When the NDP came to power there was little feeling for how to deal with them. Over a period of time a relationship did build up as the government considered various actions and pieces of legislation.

The mining association acquired some political expertise when it engaged Hedlin Menzies and Associates Ltd. because Mr. Cam Osler had political and policy analysis experience provincially and federally.

In general, however, Mr. Powis' observations hold for Manitoba. The various company heads were aware of the need to deal with government but they were learning as they went along and none had what could be called extensive political expertise.

Planned and Unplanned Action

As with the actions of other industry groups examined in this study, two types of decisions seemed important in a consideration of the mining industry situation. In the first instance, were decisions on what the basic nature of the industry approach to the government

should be. The second type of decision was that associated with major tactical moves within the context of the general frame of reference. Examples of each of these types of decisions were examined in this section. The process of decision immediately after the Kierans report was published was considered as an example of a basic decision respecting the approach to take. The preparation for the meeting with Mr. Green was considered as a major tactical move.

Evaluation of Basic Approach After Kierans Report

After the Kierans report was published, there was a great deal of consternation and aggressive reaction from the industry. The immediate reaction was to try to publicly discredit Mr. Kierans as a socialist and a poor researcher. However, when it became apparent that Mr. Kierans' report had a much wider audience than just Manitoba, industry representatives became convinced - first in Manitoba and then in Toronto (head offices) that a rigorous analytical, co-operative approach was the appropriate one to take. In other words, they shifted from an approach of aggressive opposition, as with the automobile insurance industry, to one of rational consideration of Mr. Kierans report and co-operation with the government.

The process by which this decision came about can best be described as political, and therefore, unplanned because there were different people advocating different approaches from time to time.

The Hedlin Menzies group which advocated the co-operative, analytic approach after they were engaged as the association's consultant was the primary force behind the change in attitude. They first convinced representatives in Manitoba of the advantages of the

non-political approach and then convinced eastern Canada mining company representatives.

Preparation for Meeting with Mr. Green

The process by which the decision to seek a meeting with Mr. Green following publication of the draft copy of Bill 82 was made organizational. It was a reaction to publication of the bill. It was also a standard procedure for the mining association to seek a meeting with a political representative when a matter of concern arose.

The argument to be presented was prepared over the weekend after the act was printed. It involved analysis of the bill and determination of its implications for the industry. In the verbal presentation to Mr. Green the political implications of the act were also indicated.

Observations Regarding Inputs

It was observed that the principal industry participants had little previous experience dealing with government although they were learning as they went along. This was regarded as one possible reason for the ineffectiveness of business managers in preventing undesirable system change.

It was also observed that business actions were unplanned rather than planned.

Summary

It was observed that there was change in the mining industry in Manitoba. The government gained decision power relative to mining companies. The short run effect has been decreased exploration

activity by companies. The long run effects on the public are uncertain.

Mining industry managers were unable to prevent the changes for a variety of controllable and uncontrollable reasons. Therefore, their overall performance in the government-business sphere was regarded as ineffective. It was observed that business actions were taken at most stages of the process but, particularly in the early stages, actions were directed at politicians and, Mr. Cawley, the key civil servant formulating the policy was virtually ignored. It was also noted that some industry actions, and notably a major work on the Kierans report, presented to civil servants, were not persuasive.

It was observed that mining industry managers did not have particularly good qualifications for government related activity, and that business actions tended to be unplanned.

Chapter 11

COMPARATIVE ANALYSIS

Introduction

The objectives of this research are to describe, and to evaluate and comment upon business participation in the process of government policy formulation. The purpose of this chapter is to further address the objective of evaluation of and comment upon business actions.

This chapter reviews the analysis of the three cases, and outlines their similarities and differences. The first section examines changes in the environmental systems and notes that in all three cases the relationship of government to industry was significantly altered, with government in each case assuming a more commanding position. The section following that examines the effectiveness of business participation in influencing system changes. It notes that business participation overall was ineffective, however, there were some instances where business did have influence. It also notes two general reasons for business ineffectiveness. The first includes factors not controllable by business managers such as changes in public attitudes and actions by government representatives to promote legislation. The second type of factor includes actions controllable by business managers.

These two types of factors are reviewed in the following two

settlements. In the final analytic section some of the reasons business managers took actions which were ineffective are examined.

System Changes

Each of the cases involved a significant change in the nature of the relationship between business and government. Automobile insurance was a situation where an industry was nationalized. The drug substitution case was a situation where a regulatory board, the Manitoba Drug Standards and Therapeutics Committee, was formed. The mining policy changes gave the government the option of fifty percent ownership in mining developments in Manitoba and increased royalties on a variable basis depending upon return on investment.

All of these situations involved changes which resulted in an increased government presence in the industry. In all three cases businesses lost profits they would otherwise have had: In the mining case profits were decreased because the mining royalty tax was increased; in the drug substitution case revenues and profits were decreased because prices of drugs were decreased; and in the automobile insurance case revenues and profits were lost to the industry because the business was taken over by the government.

Business managers also lost the autonomy to make certain decisions. In the automobile insurance case all decisions, including things such as product characteristics, target markets, and investment of funds respecting the basic automobile insurance business were lost. The autonomy to make decisions concerning the type and cost of supplementary coverage to be offered, if any, remained with private

insurance company managers. Almost all of the decisions concerning automobile insurance coverage in Manitoba were removed from managers of private insurance companies.

In the drug substitution case managers lost the choice of whether to market their product in Manitoba if their product was not included in the formulary. The decision on what price to charge in Manitoba remained with the company, but a price above the minimum would result in minimal sales.

In the mining policy case companies lost the freedom to choose to finance an exploration program on their own as they were required to offer the provincial government the option to a fifty percent interest in any project. The increases in mining royalty taxes eliminated the autonomy of mining company executives to decide how to allocate the funds required to pay the increased taxes.

The increased government presence altered the basis of competition in the industries studied. In the automobile insurance case the industry structure was changed from competitive to monopolistic for basic auto insurance coverage with a single government corporation replacing approximately 150 companies. In the drug substitution case the basis of competition among products became price. The quality of products, which had previously been a factor company representatives emphasized in their selling efforts, was deemed to be equivalent by the Manitoba Drug Standards and Therapeutics Committee.

The strategies of companies were also affected by the actions of the government. In the automobile insurance case some companies' new strategy for Manitoba entailed withdrawing from the province

completely. Others chose to remain in Manitoba and offer only supplementary coverage. A company such as Portage la Prairie Mutual, which was very dependent upon the Manitoba market had to develop volume in other parts of the country to offset its loss of business in Manitoba. The strategy of mining companies respecting exploration and development was altered by the shift of power to government. For instance, Sherritt Gordon announced its intention to curtail Manitoba exploration work and concentrate in northwestern Ontario.

The evidence indicated that the automobile insurance, drug substitution, and mining policies studied were part of an evolving program respecting the various industries. For example, automobile insurance coverage in Manitoba was followed in 1974 by legislation enabling general insurance to be offered by the Manitoba Public Insurance Corporation. Public life insurance has been mentioned and is a likelihood at some point in the future. The drug substitution legislation was followed by pharmacare for pensioners, and by universal pharmacare on January 1, 1975. There is talk of eventually having centralized purchasing and distribution of drugs in Manitoba. The mining policy evolved toward the objective of providing an increased return on mining operations to the Manitoba public. It is foreseen that this evolution will continue with increasing public participation and ownership in the mining industry.

In the short run the people of Manitoba have not apparently suffered from increased government control in these industries. The cost of automobile insurance is apparently competitive with other jurisdictions, the cost of drugs is reasonable and tax revenues from mining operations have increased. Over the long run it is not

possible to say what the costs versus benefits to the public will be.

Effectiveness of Business Participation in the
Process of Government Policy Formulation

Evaluated on the basis of ability to bring about system changes desirable to them, or to prevent system changes undesirable to them the effectiveness of participation by business managers in the process of government policy formulation was poor in all three cases studied. In the automobile insurance case the outcome was public ownership and operation of automobile insurance, an undesirable outcome to the private insurance industry. In the drug substitution case the drug formulary and mandatory substitution, was an undesirable outcome from the standpoint of drug companies. In the mining policy case the increased royalties were certainly not a desirable outcome for mining industry managers. The option for the government to participate in mining exploration and development projects was viewed as acceptable if the government operated on the same basis and took the same risks as the mining company, however, Sherritt Gordon announced its intention to withdraw from exploration in the province because of this participation option.

Industry managers were not successful in keeping issues from arising by dealing with them before they became matters of legislative concern. This was evidenced by the fact that problems with automobile insurance, the perceived high price of drugs and the return the public was receiving from mining operations in Manitoba were all matters of public discussion well before legislation was introduced. Industry managers were also not successful in preventing legislative action once issues had reached the stage where legislation was formally

considered.

Although it must be said that business managers were ineffective overall in their participation, there were certain features which the government proposed to implement but did not, as a result of business actions. In other words, although the overall outcomes were undesirable, they were less undesirable than they would have been had it not been for certain business actions. For example, in the automobile insurance case, it was originally proposed that automobile insurance be distributed directly from the government agency to motorists. Industry actions resulted in the inclusion of agents in the delivery system. In the mining policy case it was originally proposed that a royalty be introduced that would be adjusted by Order-in-Council. In the revised legislation, introduced in April 1975 the royalty rate was left variable but was based on a formula (return on investment) rather than left at the discretion of Order-in-Council. The original proposal also included a stringent husbandry provision to prevent companies from high grading their ore bodies. In the revised legislation the husbandry provision was dropped.

Two general reasons for the ineffectiveness of business managers' participation in the process of governmental policy formulation were observed. The two reasons were interrelated, but they were distinctly different. The first was the actions, explicit and implicit, by groups other than industry managers, such as politicians, civil servants, technocrats and the general public, to bring about system changes undesirable to industry managers. In other words there were forces pressuring for system changes which were not controllable by business managers. The second reason for the

ineffectiveness of business managers was that actions they took did not have the influence they wished them to have. The actions directed at preventing system changes were controllable by business managers.

Most of the remainder of this chapter is devoted to an analysis of these two types of factors. Non-controllable activities by groups other than business managers are examined in the context of a comparative analysis of the stages and nature of the process of government policy formulation in the three cases. Comparative analysis of actions controllable by business managers in the various cases follows consideration of the government policy formulation process.

Factors Not Controllable by Business Managers - The Process of Government Policy Formulation

The environmental system changed and business decision makers were replaced by government. In the following sections the stages of the governmental process which accompanied this shift in power, and the nature of the decision process at the various stages are discussed. In addition, some factors which apparently brought about, or encouraged, movement from stage to stage are outlined.

Stages of the Process of Government Policy Formulation

The stages of the process of government policy formulation were extensively discussed in the chapters immediately following each of the three case studies. It was established that the model formulated in the theory chapter of the thesis provided a good description of the various stages of the process.

For each of the three cases the following chronological

sequence was appropriate:

- (a) Societal Need (unrecognized)
- (b) Recognition of Need
- (c) Articulation of Demand
- (d) Decision to Proceed with Legislation
- (e) Determination of Nature of Legislation
- (f) Drafting of Legislation
- (g) Legislative Consideration
 - First Reading
 - Second Reading
 - Committee Consideration
 - Third Reading
- (h) Formulation of Regulations

The drug substitution legislation followed this framework almost exactly. The automobile insurance legislation followed the framework almost exactly, as well, except for the issue of agent compensation and inclusion in the system. Regarding this issue, amendments which included agents in the scheme were made. The amendments required some effort at reformulating the nature of the legislation, and suggested the need to include "Amendments" in the process between "Committee Consideration" and "Third Reading."

The mining policy also followed the same basic process. The Principal Minerals Royalty Act (Bill 82) in 1974 proceeded through all the stages up to "Second Reading" and was then withheld. Subsequently the process reverted right back to the, "Determination of Nature of Legislation" stage and evolved until it again reached "Legislative Consideration" in 1975 as The Metallic Minerals Royalty Act (Bill 16). In this case the process reverted back to a previous

Exhibit 11.1Nature of the Process of Government
Policy Formulation at Various Stages

Stage	Automobile	Drug	Mining
	- No decisions -		
1. Societal Need			
2. Recognition of Need	P	P	P
3. Articulation of Demand	P	P	P
4. Decision to Proceed with Legislation	P	P	P
5. Determination of Nature of Legislation	P	P	R
6. Drafting of Legislation	O	O	-
7. Legislative Consideration			
First reading	O	O	O
Second reading	P	P	P/R
Committee	P	P	P
Third reading	P	O	P
8. Regulations	R/O/P	R/P	-

R - Rational
O - Organizational
P - Political

stage.

Basic Nature of the Process of
Government Policy Formulation at
Various Stages

The conclusion regarding how decisions were made at various stages of the process of government policy formulation was that the three different models, (i.e., the rational, organizational and political) were all useful in describing various aspects, but the political model was the most powerful. This was concluded because the political model provided the greatest insight into the process of decision at the greatest number of stages. It was also most useful in understanding the processes of decision at the most important stages of the process of government policy formulation.

The four consecutive stages including "Recognition of Need," "Articulation of Demand," "Decision to Proceed with Legislation" and "Determination of Nature of Legislation" were best understood in terms of the political model in all three cases. The first two, "Recognition of Need" and "Articulation of Demand" were political because they involved various groups formulating impressions of a problem and then articulating the positions. In all three cases the positions developed and articulated by NDP representatives were different than those developed and articulated by industry managers. For example, in the automobile insurance case NDP representatives saw the problem as excessive cost and poor service by the industry and wanted to nationalize it. Industry managers did not perceive any significant problem with the product and wanted to leave the industry as it was. In the drug substitution case the NDP perceived the problem as high

drug prices and advocated centralized purchasing and distribution. Industry representatives felt there was too much government interference and advocated, no interference with drug prices. In the mining case the NDP perceived the public was not receiving an adequate return from mining operations and advocated a decrease in programs of governmental assistance to mining companies along with greater governmental participation in mining operations. Mining industry managers saw the problem as one of increased government interference in their operations and advocated continuation of the previous situation.

The "Recognition of Need" and "Articulation of Demand" stages were best understood in terms of the political model because they were characterized by development of different positions by different groups regarding what problems were and what actions should be taken to resolve problems. Perhaps if there had been common agreement on problems they could have been resolved by some means other than legislation and the process need have evolved no further. As it was, these two stages formed the basis for future developments in the process of government policy formulation.

It could be effectively argued that the organizational model provided great insight into the process by which individual groups arrived at their own positions. This is because positions were based upon previous responses in similar situations. The NDP automobile insurance stand was the same as what had previously been done in Saskatchewan. Similar drug substitution legislation had been enacted in Alberta and Ontario. In all cases the NDP supporters made the assumption often made by NDP supporters (e.g., David Lewis' book, The

Corporate Welfare Bums) that big business was taking advantage of the public. The business response at the early stages was often just a restatement of past positions. Automobile insurance managers talked of the advantages of a private enterprise system, drug industry managers talked of the need for high quality products and continued research and development and mining industry managers talked of the need for continuing exploration under a private enterprise system. There were all business positions that had been taken many times before in many different jurisdictions and could be regarded as "stock" answers to questions. However, even though determination of positions by individual groups was understandable in terms of the organizational model the overall situation was best understood in terms of the political model.

The "Decision to Proceed with Legislation" was best understood in terms of the political model in each case. One of the major reasons for this was that legislation would probably not have been proceeded with if the NDP had not been elected to form the government. The shift in power was key to the decision to initiate activities leading to the passage of legislation.

The "Determination of the Nature of Legislation" was best understood in terms of the political model in all three cases because among the group of government people concerned with the legislation, there were different points of view and different opinions about what type of legislation to introduce. As it developed, the person with the most power in the situation had the greatest influence on the outcome. In the automobile insurance case Mr. Howard Pawley and Mr. Ron Blackburn had different viewpoints on the type of legislation to

initially introduce. Mr. Pawley favoured immediate introduction of a complete program of automobile insurance. Mr. Blackburn favoured phasing the program in over three years to avoid some of the administrative problems associated with introduction of a new program. Mr. Pawley, the minister, and the person with the greater positional power made the final decision to initially introduce a full program. In the drug substitution case there were calls from the NDP caucus to further strengthen the legislation but this was not done by Mr. Miller who had control over the situation. On the interdepartmental task force in the mining cost, the Department of Finance and the Planning and Priorities Secretariat representatives favoured a volumetric tax on economic rents of mining companies while Mr. Cawley, the person with the greatest power in the situation, did not. After a good deal of discussion, negotiation and some compromises the issue was resolved without recommending a royalty based on volume. Mr. Cawley's interest in resource conservation was also reflected in the recommendations at this stage.

Where the requirements were explicitly laid out, as in the "Determination of Nature of Legislation" for Bill 16, the rational model provided greatest insight into how the outcome was arrived at.

The "Second Reading" stages of the automobile insurance and mining legislation were best understood in terms of the political model. They involved statements of significantly different points of view supported by positions of power. In the automobile insurance case the NDP dependence upon the support of Mr. Larry Desjardins created a situation where the side which convinced Mr. Desjardins to vote its way would win. As a consequence, debate in the Legislature

was impassioned and Mr. Desjardins was approached outside the Legislature by insurance industry managers attempting to win his support. In the mining case "Second Reading" was highlighted by a meeting between mining industry representatives and Mr. Sidney Green at which the mining representatives convinced Mr. Green that the legislation as drafted at that time would not achieve the objectives Mr. Green desired it, to achieve. As a consequence the bill was withheld.

Both of these situations were different than the drug substitution legislation at "Second Reading" where there was little debate critical of the legislation. They suggested that the potential for active bargaining (i.e., arguing different positions with the side with the greatest power having the greatest influence on outcomes) was present in all situations. It suggested that if the stage was properly managed the outcome could be arrived at in something resembling an organizational manner, but that if management was not effective it would evolve to active bargaining to determine the outcome. This indicated that the most powerful, or all encompassing model for understanding the process leading to outcomes at various stages was the political model. The other two models could be explained in terms of the political one, but the reverse situation did not hold. For example, the ability to argue rationally, or refer to tradition or precedent could be bargaining strengths understandable in terms of the political model. It was observed that the political model was particularly appropriate where the situations faced were new and an answer was required.

Factors Stimulating Changes from
Stage to Stage

Viewed prior to the beginning of the process of government policy formulation the business and government groups and the public were seen as systems in equilibrium with each of the groups performing specific functions. At the end of the process the systems of business, government and the public would again be considered to be in equilibrium, the difference being that the functions and tasks of business and government had shifted. This section examines some of the factors, or forces that caused the initial system to fall into disequilibrium, and the factors that kept the system changing through the process of government policy formulation.

It was difficult to say exactly how and when "Societal Need" in the initial system developed. It appeared it was a function of two factors: ongoing operations of business firms and changes in public attitudes. First, the ongoing operations of the industries involved, with increases in size and resulting complexity appeared to cause changes in the initial system. For example, as more and more cars were purchased and driven there were more accidents and consequently more insurance claims. There were industry practises which annoyed industry customers. The actuarial practise of decreasing premiums for an accident free driving record but raising it if a person was responsible for an accident caused consternation as did the practise of charging young drivers without accident records higher premiums. Use of the tort system to establish fault in insurance claims resulted in delay in payment of claims in some cases. Standard drug industry practises resulted in public criticism

of that industry. In the post World War II era the strategy of many drug companies was to use research and development to discover new drugs and then market these drugs. By use of extensive promotional methods such as advertising, detailing and sampling it was possible to sell at high margins to pay for further research and development work. Using this type of strategy, companies which discovered new drugs were extremely profitable.

Mining companies' strategy was to explore for mineral deposits and either develop what was discovered, or sell it to a company which had the capacity to develop it. The companies, in their exploration activity, took advantage of available governmental assistance and tax write-offs designed for the purpose of encouraging exploration. When new deposits were discovered there was potential for extremely large scale mining developments such as the International Nickel Company mine at Thompson.

In all three cases, generally speaking, the industry managers followed what could be referred to as good sound business practises.

The drug and mining industries changed substantially from the 1940's to the 1970's as they became larger. Drug companies moved from discoveries of new products to a position where a greater percentage of their sales were in products developed previously. The mining companies moved from primarily exploration activities to a position where a greater percentage of their activities were in mining and production of minerals.

In addition to normal industry practises the second thing which "Societal Need" appeared to result from was a change in public attitude such that what had previously been considered acceptable

activity by business firms was no longer considered acceptable. While the public accepted high prices and a strategy of heavy promotion from drug companies in the initial stages of discovery of new drugs there was apparently a latent feeling that prices should come down eventually. Likewise, when mineral exploration was the primary activity of mining companies people apparently felt it should be encouraged as it would ultimately result in benefits for them. However, when mines were in production and they were still not receiving discernable benefits, people were less amenable to supporting industry incentives.

Simply stated, "Societal Need" occurred when there was some variance between industry practises and the attitude of the public regarding what proper industry practise should be.

"Recognition of Need" was the stage where some people recognized there was some difference between industry practise and the public's expectations of the industry. In the automobile insurance case, recognition of a need was demonstrated by appointment of industry review committees in many different jurisdictions. In the drug substitution case it was demonstrated by the enquiry into the manufacture, sale and distribution of drugs by the Restrictive Trade Practises Commission in April 1968. Concern about the return the public was receiving from mining companies was demonstrated by Mr. Saul Cherniack in debates in the Manitoba Legislature and by the Report of the Royal Commission on Taxation.

"Articulation of Demand" followed "Recognition of Need" and, in combination with it, served to increase the interest of the public in the issues, and contribute to formation of public attitudes. Articulation of demands by political personalities was apparently

dependent, at least in part, upon the ideology of the party to which the person belonged and his own ideology and beliefs. Thus, there were NDP politicians in the 1960's advocating public automobile insurance, a greater return to the public from mining operations in Manitoba, and a program of pharmacare for Manitoba. Progressive Conservative politicians, on the other hand, advocated maintenance of private automobile insurance and continuation of incentives to stimulate mining development in Manitoba. Industry representatives argued for maintenance of the status quo between business and government in all three cases. The "Articulation of Demand" stage was also understandable in terms of politicians actively searching for issues.

The "Decision to Proceed with Legislation" stage in each of the cases came about almost entirely as a result of the election of the NDP in June 1969. Automobile insurance was immediate, announced the night of the election. The process of review leading up to legislation in the mining and drug substitution cases was initiated in the latter part of 1969. Election of the NDP with its different platform, based upon its apparently correct perception of the desires of the majority of the public, was a key to the future evolution of the three policies. The policies, were as mentioned, based upon the interpretation of the public attitude, and also upon the ideologies of the NDP party and the ideology of the individual politician.

Once the decision to proceed with legislation was made the "Determination of the Nature of Legislation" followed as a result of that decision. The public interest was considered as a decision criteria in deciding what type of legislation to recommend. Likewise,

the "Drafting of Legislation," "Legislative Consideration" and "Regulation" stages followed each other in natural sequence.

In summary, once the process reached the "Decision to Proceed with Legislation" stage it proceeded to the other stages in logical sequence. However, prior to that it was motivated primarily by a discrepancy between industry practise and the public attitude of what proper industry practise should be. There were different perceptions of proper industry practise held by different segments of the public. The segment represented by the Progressive Conservative party saw basically no discrepancy between industry practise and public perception of proper industry practise (public interest). Thus, as long as the Progressive Conservatives were in power industry practise was in accord with the public interest, however, when the NDP were elected industry practise was no longer in accord with the public interest and legislation resulted.

It was interesting to note that the "public interest" was apparently defined in practise as the platform of the political party in power, which in turn related to that party's perception of public attitudes and its own ideology.

Key Decisions in the Process of Government Policy Formulation

There were three key decisions which determined the basic nature of the legislative outcomes in the three cases considered. These were the decisions on what initial stand to take with respect to an issue, the decision to proceed with legislation and the decision determining the nature of the legislation. The initial decision on what demand to articulate was, in each of the three cases, generally

representative of the nature of the final legislative outcome. The initial articulation in automobile insurance was for public ownership of the industry; the initial articulation in drug substitution was for lower prices, centralized purchasing and distribution and drug substitution; the initial articulation in mining was for a greater return to the public from the mining companies.

The decision to proceed with legislation was definitely necessary to proceed to a final legislative outcome. And the determination of the nature of legislation in each case laid out the basic aspects of the legislation to be introduced.

The interesting and important aspect of these three most important decisions leading to legislative outcomes, was that all three were made by government representatives (either political or civil servants), not business managers.

Summary of Characteristics of the Process of Government Policy Formulation

The process of government policy formulation, as it was observed in the three cases studied, was characterized first by a number of different stages spanning a period of years. It was also observed that the process of decision at these different stages was best understood in terms of political model; although an organizational model and a rational model were also appropriate in some instances. The motivation for movement of the process of government policy formulation from stage to stage up to the "Decision to Proceed with Legislation" stage was essentially public attitudes as to how the public interest differed from industry practises. After the decision

to proceed with legislation the process proceeded stepwise from stage to stage, although the perceived public interest criteria was considered at the "Determination of Nature of Legislation" stage. The major decisions affecting the nature of the outcome of the process were all made by government representatives, not business managers. In other words, there were significant pressures for system changes from other sectors of society and business managers had no control over these other sectors.

Factors Controllable by Business Managers -
Business Participation in the Process of
Government Policy Formulation

Business participation in the process of government policy formulation was ineffective in bringing about system changes desired by business managers, or in preventing system changes not desired by business managers. The previous section demonstrated that one reason for business ineffectiveness was pressures for system changes from other sectors not controllable by business managers. This section deals with actions taken by business managers which, as such, were controllable by them. The analysis in this section demonstrates that the actions taken by business managers were, in many cases, less adequate than they could have been and, therefore, also contributed to the ineffective performance of business managers. The analysis of business actions centres around two primary considerations. First is an examination of when business actions were taken, and to whom they were directed; i.e., the point(s) in the process of government policy formulation where business actions were taken. It was indicated that business actions were concentrated at the later stages of the process

of government policy formulation and directed toward politicians. The second primary consideration was whether actions were persuasive to government representatives, or to the public to which government representatives related.

Points of Action by Business Managers

In searching for reasons why actions by business managers were ineffective one of the factors considered was the point(s) of action by business managers. It was concluded by Lang that one of the reasons pharmaceutical representatives had been ineffective in influencing federal government drug legislation was because they, "attempted to bring pressure to bear on the Members of Parliament when the crucial role was being played by an Inter-Departmental Committee."¹ Galbraith² said that the Legislature is, "the branch of government which has been declining in relative importance" and that the bureaucracy or public service was, "the branch of government which, as public tasks become more complex, is strongly ascendant." These references suggested the importance that business managers deal with both civil servants and politicians, and maintain these relationships at all stages of the process.

After evaluating the point(s) of action by business managers it was concluded that the hypotheses that:

Actions by business managers will tend to be concentrated at the later stages of the process of government policy formulation, was in fact correct in the cases of the automobile industry and mining industries but was not as obvious in the drug substitution case. The drug industry was not really active at any of the stages of the

process. More notably, most industry actions were directed at politicians, not public servants, except in the mining industry case.

Consideration of the actions taken at various stages of the process of government policy formulation by representatives of the different industries (Exhibit 11.2) indicated that the very active insurance agents and companies concentrated most of their activity at the "Legislative Consideration" stage of the process. Mining industry representatives concentrated heavily at the "Determination of Nature of Legislation" and "Legislative Consideration" stages. However, most of their actions occurred late in the process and related to Bill 16. Representatives of the drug industry, including the Manitoba Pharmacists Association and the pharmaceutical companies, had a more balanced approach than automobile insurance or mining representatives, but did not take many actions.

All of the industry groups devoted a major portion of their actions to addressing politicians, either directly, or indirectly, through the public, or along with public servants (Exhibit 11.3). The automobile insurance representatives devoted almost all of their activities to this audience. Pharmaceutical representatives addressed the majority of their actions to politicians, as did the mining industry prior to Bill 16.

It was apparent that mining representatives were more active at stages prior to the legislative stage than were automobile industry representatives. It was also apparent that pharmaceutical and mining representatives took more effort to address themselves to members of the bureaucracy than automobile insurance representatives. Auto insurance representatives, on the other hand, were primarily concerned

Exhibit 11.2Stage of Action by Representatives of Different Industries

Stages of Government Process	Automobile Insurance Industry	Drug Industry	Mining Industry
1. Social Need	0	0	0
2. Recognition of Need	0	1	5
3. Articulation of Demand	3	1	2
4. Decision to Proceed with Legislation	9	3	2
5. Determination of Nature of Legislation	14	2	25
6. Drafting of Legislation	0	0	1
7. Legislative Consideration	75	7	22
8. Regulations	10	7	0

Exhibit 11.3Group to Which Actions by Different
Industries Were Directed

Target Audience	Automobile Insurance Industry	Drug Industry	Mining Industry
Bureaucrats	3	8	38
Politicians/Bureaucrats	3	3	3
Politicians	33	7	12
Public/Politicians	50	2	3
Other Industry Representatives	21	1	0
Legal Experts	2	0	1

themselves with actions aimed at defeating the government.

Something, however, that characterized all industry groups examined, was failure to take action, or to prepare for future action, at the earliest stages of the process of government policy formulation. They all neglected the stages of "Recognition of Need" and "Articulation of Demand." It would appear that an earlier awareness of potential political issues would be useful for business groups. The mining companies did get involved in the "Recognition of Need" stage with respect to Bill 82. However, this must also be understood in the context of the ongoing stream of government activity with respect to the mining industry and the fact that it was not until about four years after review of the mining industry was initiated that specifics of Bill 82 were drafted. It suggested that the mining industry developed some expertise in dealing with the government over that period. For any industry which desired to develop and maintain an ongoing relationship with government it also implied that time was necessary to develop the relationship. Furthermore, the relationship was not something which could be started or stopped at will.

By not being active at the earliest stages business managers were not in a good position to follow public opinion. When criticisms of the industry were voiced they could not be understood and addressed. As a consequence, business managers placed themselves in a weaker position at later stages of the process of government policy formulation.

Effective and Ineffective Business
Actions

As indicated, the major decisions determining the outcome and pace of the process of government policy formulation were made by government representatives. The challenge for the business manager in this situation was not to decide the outcome, but to influence government representatives to make choices which would have desirable consequences for the business manager. The object of this section is to compare the effectiveness of business managers at this task in each of the cases.

In simple terms, some business actions were effective and others were ineffective in influencing government representatives. The important consideration was why were some actions effective and others ineffective. The primary requirement for effective action was that it be based upon use of an argument that made the government representative see it to be in his own best interest to make the decision the influencer desired. The factors available to a business manager to exert influence included his influence resources and other peoples perceptions of his ability and will to use these resources.

Examples of effective action, such as Sylvan Leipsic's brief to the Automobile Insurance Committee; the insurance agents rally; Jim Harbun's actions in meeting with Mr. Desjardins and Premier Schreyer; the protest meeting of the Manitoba Pharmaceutical Association; the withholding of information from the formulary committee by the drug companies; and the meeting the Mining Association of Manitoba had with Mr. Green after Bill 82 had been tabled in the Legislature all had something in common. This was that they all put their arguments in

terms that made the people to be influenced see it in their best interest to take positive action in response to the business representatives action. For example, Mr. Leipsic's brief was a well-reasoned, rational document in a sea of other documents based on emotional arguments. This resulted in a government perception of him as a reasonable man and his later appointment to the board of the Manitoba Public Insurance Corporation. The insurance agents rally demonstrated the political support the insurance industry had. The government recognized this support by ultimately changing the plan so agents would be included. The action by Mr. Harbun was appealing to the government because it provided information that was important in deciding how to include agents in the insurance delivery network. The meeting of the Manitoba Pharmaceutical Association protesting the appointment of the Klass Committee was influential because it exerted some political pressure on the government and was taken into account the next time committee appointments were made. Withholding of information by the drug companies was important to the government because they couldn't proceed without the information. The representation made by the mining industry to Mr. Green dealt with details of the legislation and the difficulty of implementing some of the things Mr. Green wanted the legislation to do. This persuaded Mr. Green to withhold the legislation and have it reformulated.

As stated by Neustadt³ these actions were based upon resources which the influencers possessed: Mr. Leipsic, his knowledge; the insurance agent's, their political support; Mr. Harbun, his knowledge; the pharmacists, their political support; the drug companies, their information; and the mining companies, their knowledge and expertise

of the mining industry.

Ineffective actions included the meeting insurance representatives held with Premier Schreyer and Mr. Pawley in 1969; the series of meetings between Mr. Vannan and Mr. Pawley in the fall of 1969; the letter from Mr. Vannan to Mr. Pawley in early November 1969; the presentations to the Public Utilities Committee by insurance agents; the brief to the Law Amendments Committee by the Pharmaceutical Manufacturers Association of Canada; the letter to Premier Schreyer from the Manitoba Pharmaceutical Association; and the report prepared by Hedlin Menzies and submitted to the government of Manitoba. These actions all contained the common element that the arguments they presented were not things the government perceived as being important enough to persuade them to modify their course of action in the direction desired by the business manager. Furthermore, the consequences for the government of not doing what the industry requested were not perceived by the government as negative, or at least not negative enough to cause them to act as industry representatives desired.

For example, the industry representatives' meeting with Premier Schreyer and Mr. Pawley indicated that insurance industry representatives did not have the power to influence the Premier and his minister to go along with what they wanted. Arguments presented by Mr. Vannan in the series of meeting between Mr. Vannan and Mr. Pawley were not appealing to Mr. Pawley because the free enterprise arguments advanced by Mr. Vannan were not in keeping with his own thinking. The letter from Mr. Vannan to Mr. Pawley in early November 1969, destroyed the relationship that had been established up to that

point. Mr. Pawley was very surprised and disappointed that the letter should have been written. The presentations to the Public Utilities Committee by the Insurance industry representatives were based upon arguments that were ideologically based, and not appealing to members of the NDP caucus. The consequences of rejecting the agents arguments were more rewarding to NDP members than the consequences of supporting them. The PMAC brief to the Law Amendments committee was something that fell into the category of predictable action by the PMAC and the government was able to capitalize upon this with its amendments. The letter to Premier Schreyer from the Manitoba Pharmaceutical Association was a case of a group attacking the government and was obviously not appealing to the government. Finally, the Hedlin Menzies brief to the Manitoba government was not influential because it was based on the assumption that government representatives did not have access to certain confidential information on mining companies, which, in fact, had been used by government investigators. Consequently, the report, lost credibility.

The most important element of effective business action was persuasive argument. Persuasive argument was important because, it must be remembered, business managers did not actually make any of the important decisions concerning the system outcome. The key to persuasive argument was to put the request to government in such a form that it was either perceived by the government to be to its advantage to do as the business manager requested or perceived by the government to be to its serious disadvantage to not do as business managers requested.

The ability to present rewards (perceived advantages) and/or

punishments—(perceived serious disadvantages) was the key to having government representatives perceive it to be to their advantage or disadvantage to do as business managers desired. These were the sources of power, or bargaining advantages, possessed by business managers.

Business managers observed in the three cases studied did not appear to understand this concept of power well. Often they did not satisfy the requirement of use of power of understanding the situation from the point of view of the person to be influenced in order to determine what he would consider rewards and/or punishments to be. The business managers in all three cases, especially in the automobile and drug cases, were primarily concerned with expressing their own point of view rather than with trying to understand the situation from the viewpoint of the government representatives. Such was the case when Mr. Harley Vannan took Mr. Howard Pawley to lunch at the Manitoba Club and told him about the benefits of a free enterprise system.

Mr. Vannan was not presenting an alternative which Mr. Pawley perceived to be rewarding to support.

When arguments were presented in ways that were important to business managers and not to government representatives, or where the arguments presented appeared self-seeking without taking the public interest into account, they tended to be ineffective. It was also noted that the use of coercive tactics to attempt to persuade government representatives had little success.

When government representatives did do something as requested by business managers they did so because it was perceived that there were advantages to the action, or that perceived disadvantages were

avoided. For example, the perceived advantage for Mr. Green to withhold the Bill 82 mining legislation was that he had been convinced by mining industry representatives that the bill, as it stood in June 1974, would not implement the government's intentions. Consequently, he decided nothing would be lost by holding it back for a year and improving the legislation. In addition to the perceived advantages of making his decision, opposition members suggested that there would have been political disadvantages to proceeding with the legislation, as previously suggested.

Where action was effective it may not have been the case that managers explicitly considered the governmental point of view before taking action. The point is that the actions did, in fact, present or support options which government representatives perceived as desirable from their own point of view. It was incidental to government representatives that their decisions also had desirable consequences for business managers.

By presenting arguments in terms of their own point of view, and demonstrating a greater concern about what was good for them than what was good for society, business representatives did not demonstrate a willingness to consider the public interest as one of their decision criteria in deciding upon what actions to take. It could be further argued, that failure to utilize the public interest as one of their decision criteria was a factor contributing to business managers loss of power in the provincial environmental system.

Effective Actions Differed from Point to Point

From the observation that effective actions presented arguments,

which were perceived by government decision makers to be in their best interests to accept, and the assumption that what government representatives perceived to be in their best interest would differ from point to point in the process of government policy formulation, it was deduced that the characteristics of effective business action would differ from point to point in the process. An examination of the case materials supported this deduction. For example, the action by drug companies in delaying the return of information on specific drug products requested by the Manitoba Drug Standards and Therapeutics Committee, had the effect of delaying completion of the committee's first formulary. Withholding information was effective in delaying the process at this stage because the information was needed by the committee to complete its work, and although it could have been obtained from other sources it would have taken time. If the information had not been important to decisions to be made, as at another stage of the process such as "Determination of Nature of Legislation," the action would have had no effect.

The insurance agents rally in April 1970 was effective in focusing public and government attention on the problems for insurance agents with the proposed government scheme. A public demonstration to indicate support for the agents was effective at that stage because the government was concerned with getting the legislation passed but formed only a minority government. A public demonstration after the legislation had passed would have done little good, because the threat of defeat in the Legislature would no longer have been a concern.

These examples demonstrated that the primary concerns, or decision criteria, of government representatives differed from point to

point (i.e., stage to stage and person to person) in the government policy formulation process. In consequence of this change it was understood that different actions would be effective at different points in the process of government policy formulation.

Basic Factors Underlying System Changes to
Greater Governmental Dominance (or to Business
Ineffectiveness)

In each of the cases there was an evident shift of emphasis from business to government. From this shift it was concluded business had not been effective in its participation. There were two types of considerations responsible for the lack of business effectiveness. One consideration was actions by government representatives in the process by government policy formulation which were uncontrollable by business managers. The other factor, this one controllable, was the actions taken by business managers themselves.

This section indicates some of the factors underlying, or responsible for, the uncontrollable and controllable considerations causing business actions to be ineffective and contributing to system changes resulting in greater government dominance.

Factors Underlying Actions not
Controllable by Business Managers

By examining uncontrollable factors underlying the ineffectiveness of business managers this section also addresses the question of why actions were taken by government representatives. Three different types of factors contributed to action by government representatives. These were societal factors, government/political factors and individual factors.

Societal Factors

The attitude of public acceptance of increased government involvement in business was a major societal factor underlying decisions of government representatives to take actions with respect to the business sector. This also implied that the public did not previously believe that the industries in question were operating in the public interest.

The environment included people of all different political persuasion, but the existence of a committed group, such as NDP party members, advocating increased centralization of economic decisions was a contributing background factor.

The public interest, as it was perceived by NDP governmental representatives, was not in accord with the actions of business managers. For example, there was a desire to have more local control over the economy as evidenced by the Guidelines for the Seventies report. A basic distrust of big business firms and "the East" was characteristic of many people in the province. This feeling, or attitude, led to support, or a feeling of sympathy for provincial government action with respect to big business firms.

Government perceived the public interest to be in support of considerations such as full employment, regional economic growth (the Manitoba region) and control over economic decisions affecting Manitoba. These factors contributed to a greater governmental presence in economic affairs. A desire to control the investment portfolio associated with automobile insurance and confine investments to Manitoba was one of the considerations advocated for establishing a government automobile insurance scheme.

High prices were also apparently perceived as contrary to the public interest. Suspicion of excessive pricing, whether suspected as a result of exploitation or inefficiency was important as an argument for the actions taken by government. For example, government automobile insurance was based upon the belief that the government could provide a lower cost service. The drug substitution policy was tied to the belief that drug companies were making excessive profits by overcharging for their products. Finally, the mining policy legislation considered that mining companies were receiving an unearned premium (economic rent) as a result of rapid escalation in world metal prices.

It was observed that there was a negative public reaction to alleged shortcomings in industry operations even when the public did not understand the issues well. In other words, the public image of business was poor. The automobile insurance industry was a good example of negative public reaction to an industry. Even some people who strongly supported the case for private automobile insurance said that service offered by the industry left much to be desired.

A further general factor contributing to government decisions to take action was the perceived threat of shortages. One factor of concern in the mining policy process was that there would be a future world shortage of metals.

The uncontrollable societal factors which contributed to the ineffectiveness of business managers in influencing system outcomes were summarized as public perception that certain business activities conflicting with the public interest. These included things such as pricing, resource shortages, regional development, decision control.

and the image of business. There was also an evolving attitude of greater public acceptance of government involvement in business, and there were groups in society who actively pointed out perceived shortcomings of business and advocated increased governmental activity.

Government/Political Factors

Key factors underlying government decisions to increase control over business were related to two factors. One was the motivation to increase control and the other was the perception that the government possessed, or could acquire, the skills and ability to perform the task in question. The motivation was supplied in part by a political or public perception of a differential between the public interest and business actions, discussed previously. Motivation was also supplied by the personal beliefs of government representatives and politicians, discussed in the next section. The need to raise revenue was another motivating factor. However, in addition to an underlying motivation to assume business functions, government representatives also indicated they required the perceived ability to do the job being performed by the private sector before they would move in.

The fact that the technical and managerial expertise in government was relevant to governmental decisions was obvious with respect to the mining and automobile insurance legislation. With respect to mining Mr. Sidney Green indicated that, "I am most happy with joint ventures for one particular reason. Because, Mr. Speaker, I want the expertise that the industry has. Now you can get that in two ways. You can just go ahead and buy it or you can be involved with that. But if I had all of their expertise -- I'm being completely

selfish in this connection -- if we had all their expertise, then what I said yesterday was quite right, that thirty percent is better than twenty percent and sixty percent is better than thirty percent and 100 percent is best of all."⁴

The influence of the government's assessment of its expertise with respect to an industry had an influence on the decision to go ahead with the automobile insurance legislation. Mr. Howard Pawley said that visits to Saskatchewan to look at the automobile insurance plan and its operation there, made a great impression on him by demonstrating that many of the blasts hurled at the Saskatchewan scheme by their opponents were not true. He went on to say that, "the success of the scheme in Saskatchewan, as it was sensed, provided an example to the committee that public insurance could work and furthermore that it could work to the satisfaction of its employees and the public."⁵

Legislative developments in other provinces contributed to the government's perceived ability to successfully undertake new programs. This was demonstrated in the proceeding statement by Howard Pawley. It was also the case with respect to the drug substitution legislation as similar legislation had been introduced in Alberta and Ontario.

The fact that tools for analysis were available to government made it possible for them to implement a program such as automobile insurance or the drug substitution legislation. The automobile insurance plan would have been less feasible had it not been for the computer capability available. The drug substitution legislation would not have been possible without the facilities to test for equivalence of drugs.

The tendency of the government to hire civil servants who ideologically supported its position to formulate legislation was another governmental factor contributing to the ineffectiveness of business managers. In the automobile insurance case Mr. Ron Blackburn and Mr. David Randall were hired. In the drug substitution case Mr. Rene Chartier was hired and in the mining case Mr. James Cawley was hired.

Individual Factors

The skills and attitudes of important government representatives were also observed to be factors influencing the direction of governmental actions.

Anti-industry attitudes of governmental representatives such as Mr. David Randall in the automobile insurance industry case guaranteed the types of recommendations which he would make. The general anti-big business attitudes stated in the Guidelines for the Seventies⁶ report were indicative of the attitudes held by many government representatives.

The pro resource conservation stance favoured by Mr. James Cawley was evident in Bill 82 introduced in 1974.

The importance of the skills of governmental representatives in bringing about system changes was obvious in the automobile insurance case. If it had not been for Premier Schreyer's political skill it is possible that he would not have been able successfully to undertake the negotiations to convince Mr. Larry Desjardins to renew his support for the automobile insurance legislation in August of 1974. The political skills of Messrs. Saul Miller and Rene Chartier were

evident in the manner in which the drug substitution legislation was introduced with the weak legislation first, subsequently amended to do what they wanted it to do.

Factors Underlying Shortcomings
(and strengths) in the Actions
Controllable by Business Managers

The previous section outlined some of the factors underlying the uncontrollable events which contributed to the business ineffectiveness in the process of government policy formulation. This section outlines some of the factors underlying shortcomings and, in some cases, strengths of the actions controllable by business managers. It considers why actions were not taken at all points of the process and why they were not presented in a persuasive fashion. The general types of factors were industry/organizational and individual.

Insofar as industry/organizational factors were considered, it was observed that there was little planning for action, the organization decision criteria of profitability probably precluded more attention being given to the public interest as a decision criteria, and business either did not have, or did not emphasize, distinctive competences which the government felt could not be duplicated. Individual factors contributing to the lack of business success included a lack of political experience by the people involved, a lack of understanding of the governmental process and a lack of political skills, the ideologies of business managers and the image this created with government representatives, and the fact that the business managers involved in presenting the business case were also, in most instances, responsible for other duties at the time.

Industry/Organizational Factors

Unplanned Process of Deciding Upon Action

One of the hypotheses of this thesis was that,

Business actions in the process of government policy formulation were decided upon in an unplanned fashion.

Although there were exceptions, the evidence supported the hypotheses that business actions in the process of governmental policy formulation were decided upon in an unplanned fashion.

The evidence was of two types. In the first place the process of deciding upon action conformed to an unplanned decision process. That is, it either was done by reacting to problems and handling them in a manner similar to what had been done previously, or the process involved resolution of conflicting views on what to do by a process of bargaining, in which the amount of influence on what action to take was proportionate to the power of the influencer.

The other type of evidence indicating that actions were formulated in an unplanned fashion was that the process of deciding upon action did not exhibit the characteristics of a planned process. For example, there was not typically a unitary set of goals or objectives respecting actions, problems were often not anticipated, business representatives did not (at least initially) have a good understanding of the people involved in and the nature of the government policy formulation process, alternative actions were not analyzed in a systematic fashion and actions were not stated as part of a timed sequence of conditional moves.

The evidence supporting the hypothesis was included and summarized in the analysis chapters immediately following each of the

presentations of case material.

Some of the factors which appeared to make a difference in the manner in which business actions were formulated, included the type of government/business relationship which had existed previously, the previous experience of business representatives in dealing with government, the type of issue being dealt with (i.e., was it a new issue, a repeat of something previously; or was it nationalization of an industry or regulation) and, the size of organization.

The type of government/business relationship which had existed previously tended to be maintained as new issues came along. This presented problems for automobile insurance representatives because they had no previous relationship with the NDP government. This resulted in a political decision process within the industry to decide how to approach the government. On the other hand, mining representatives went to the minister on the basis of previous experience, and the Pharmaceutical Manufacturers Association of Canada, who had little previous interaction with Manitoba government representatives, dealt with the Manitoba situation in a fashion similar to which they had dealt with other governments in Canada.

The type of issue also had an effect. Where the issue was a new one, such as automobile insurance, there was a tendency for a political approach to the situation to prevail. Where the situation was a repeat, such as the drug substitution issue in its early stages, the tendency was for it to be an organizational approach resulting in action similar to what had been undertaken previously.

Where an issue was one which raised a great deal of emotion, such as the automobile insurance take-over or the mining take-over

proposed in the Kierans' report there was a tendency for business representatives to become reactionary. Where the situation involved regulation only, such as the drug substitution case, business representatives seemed better able to cope personally. They saw issues in a different perspective.

The size of organization also influenced how business managers decided upon a course of action. Where the organization was large, especially, where it was an industry association, there were many different people with different interests arguing for various points of view. For example, the insurance agents and companies in the automobile insurance case. This contributed to an unplanned approach, either political to resolve issues, or organizational to avoid them. The smaller the group, such as with Mr. Leipsic's brief or Mr. Harbun's action, the easier it was to reconcile conflicting pressures and come to a consistent course of action based upon the groups goals. It appeared that where there were fewer people involved there was a greater tendency for rational action.

A rational, analytic perspective was obtained in the case of the Mining Association of Manitoba by hiring a consulting firm to undertake analysis of the Kierans' Report, and subsequent government pronouncements on mining policy. This did not necessarily mean, and it was not the case with the mining association, that the process of deciding upon action was planned. However, it did ensure that at least one of the points of view expressed in the process of deciding upon action was analytically based.

The lack of a planned approach was also associated with a lack of understanding of the process of government policy formulation. This

was suggested by Mr. R.A.S. Cooper in the automobile insurance case when he said that industry representatives felt like "babes in the woods" regarding their first meeting with the government. The lack of a good understanding was also associated with a lack of good contacts in the government. This was certainly the case in the initial stages of the automobile insurance legislation. However, the mining and pharmaceutical industries had better contacts with government representatives. Lack of good contacts made it extremely difficult to monitor developments in governmental thinking and activities in the automobile insurance case. Once again the mining industry case provided a good contrast because they had very good contact with the government, particularly in the later stages of the process.

A conscious planning and forecasting effort may have made it possible for all three of the industries to anticipate some of the future problems and to prepare for them. This type of early anticipation and planning was completely lacking.

Failure to Understand and Account for Public Interest

Another factor contributing to the failure of business managers to exert more influence on the outcome of the process of government policy formulation was a failure to take the public interest into account in decisions. The primary consideration in many business actions appeared to be to maintain the status quo rather than evaluation of what was best for the public. The immediate mining industry reaction to the Kierans' Report was to try to discredit it as a socialistic document, not to evaluate it in terms of the public interest. In the early stages of the process, when government

intervention was not an immediate threat, more attention to the decision criteria of the public interest in addition to straight profitability may have created a greater awareness of potential future problems.

Influence of Technological Factors on Government

In The New Industrial State, Galbraith said that firms involved in the planning system exerted great influence in governmental circles because of their technological abilities. An examination was made of the mining, automobile insurance and drug cases to determine whether the differences in level of technology of the three industries had an influence upon the type of government-business relationship that developed and the amount of influence that industry managers had. Although it was difficult to assess the specific level of technology of each of the three industries it was decided that the drug and mining industries were higher technology industries than the automobile insurance industry. This decision was made on the basis of criteria such as education levels of people in the industry, the use of specialized techniques in the industry, research conducted by the industry, and capital requirements for specialized equipment.

The drug industry exerted little overall influence on system changes. They were able to delay the publication of a formulary somewhat by withholding information on their products. This could be regarded as a result of a technological competence.

The insurance industry achieved inclusion of agents in the insurance delivery system as a result of political pressure based on public support; not as a result of a technological competence.

The mining industry caused delay to and changes in Bill 82 because they were able to show that the bill would not achieve the objectives desired by Mr. Green. In addition, Mr. Green did not apparently want to alienate the industry, because he realized the government did not have employees with the ability to run a mining company. This could be regarded as a technological advantage of the industry. There was no question that the government-business relationship between the mining companies and the government was better than with the automobile insurance industry. However, it was really the government's (Mr. Green's) initiative that established the good relationship.

What was it about the mining industry that led to this better relationship? One possible explanation is the difference in technology. However, a more plausible reason was the size of the industry and the amount of investment in Manitoba by mining companies as opposed to automobile insurance and drug companies. In other words mining was more important to the overall economy than the automobile insurance or drug industries.

It was concluded that the important factor in developing a good relationship with government and/or having a desirable influence on system outcomes was to have the government perceive that the industry had some characteristic, be it technology, public support, mining expertise, capital or otherwise, that would either benefit the government by its existence or harm it by its absence.

Individual Factors Contributing to Ineffective Business Performance in the Process of Government Policy Formulation

It was apparent, as indicated in the previous section, that business managers had little initial experience or training in dealing with the government. With this there was little understanding of the nature of the governmental process.

None of the industry managers involved in any of the cases had specific training in dealing with government. In addition, only the drug industry representatives involved had previous experience of any extent in dealing with the process of government policy formulation, and even their experience was not with an NDP government.

The lack of experience or training resulted in a lack of understanding of the process of government policy formulation. It also contributed to a lack of skill in dealing in the process.

The attitudes of many business managers studied were based, either explicitly or implicitly, on a belief in a free enterprise system and independence from the government. This attitude was especially evident in the automobile insurance and mining cases. The attitude made it difficult to negotiate and compromise, which is the essence of the governmental process.

Summary

This chapter further assessed and commented upon the case data. The chapter outlined some of the similarities and differences between the three cases. It pointed out the system changes which were detrimental to business in each of the cases and the ineffectiveness of business managers in preventing these changes. The uncontrollable

and controllable considerations underlying the ineffectiveness of business managers were outlined. Finally, factors responsible for the controllable actions and uncontrollable activities were discussed.

Footnotes

¹R.W. Lang, "The Politics of Drugs: A Case Study of the Pharmaceutical Manufacturers Association of Canada" (Masters Thesis, University of Waterloo, Waterloo, Ontario), p. iii:

²J.K. Galbraith, Economics and the Public Purpose (Boston, Mass.: Houghton, Mifflin Company, 1973), p. 159.

³R.E. Neustadt, Presidential Power (New York: John Wiley and Sons, 1960), p. 34.

⁴Mining case material.

⁵Automobile Insurance case material.

⁶See chapter on Manitoba Background.

Chapter 12

CONCLUSIONS

Introduction

The issue underlying this study is the increase in government involvement in business, and how business managers can or should respond to it. The objectives of the study are to describe, assess, and comment upon, business participation in the process of government policy formulation. The three cases on the automobile insurance, drug substitution and mining legislation provide a description of the process of government policy formulation and business participation in it.

Assessment of and comment upon the process of government policy formulation involves a number of different considerations. These include the system changes that occurred in each of the cases, the effectiveness of business managers in influencing system changes, the uncontrollable activities of government representatives, and controllable actions by business managers responsible for business ineffectiveness and the factors underlying the controllable and uncontrollable actions.

System Changes

The most important conclusions respecting changes to the company-environment system are as follows:

... In all three cases business was a big loser.

- . . In all three cases government basically got what it wanted.
- . . In the short run there were major changes, but small organizations did not lose as much as large organizations.
- . . In the short and intermediate term the public interest was served.
- . . In the long run the effects were unknown.
- . . New problems were created requiring further government action.
- . . Private industry managers were eliminated from the system.

Business a Loser

Berle¹ comments that, "enhanced social control over economics is inevitable." Thain² says that, "unavoidable social, economic, and political changes, originating both inside and outside the nation, are forcing federal government policy-makers to implement more comprehensive socio-economic planning than ever before." The three cases studied certainly indicate an increased government presence in each case. They also indicate that government assumed control over decisions and resources that had previously been the responsibility of the business sector. In automobile it was ownership, in drug substitution it was the price to be charged and in mining it was the decision to proceed with independent development and a loss of revenues by taxes. The control of these factors was assumed by government. There was a transfer of control from business to government and business was the loser.

Government Achieved Its Aims

In each of the three cases the government achieved, in principle, what it intended, despite opposition from the industry

concerned. The intended aim was, in each case, based upon the government's perception of what was best for the public. In the automobile insurance case the objective of a government owned and operated plan was achieved. In the drug substitution case the objective of mandatory drug substitution as a means to lower drug prices was attained. And, in the mining case a greater immediate return to the public was attained through higher mining royalty taxes, and potential future income was obtained by participation in mining ventures.

Survival of Smaller Operations

In the automobile insurance case agents were retained in the system while companies were eliminated. In the drug substitution case prices of large drug companies were affected, but pharmacists' operations were not. In the mining industry case a major reason Bill 82 was withheld in 1974 was because of the effect it would have on smaller, newer producing mines. The reason for this is apparently because government, as indicated in the Manitoba background chapter, saw it as in the public interest to encourage small business and to be distrustful of big business and large firms.

Serving the Public Interest

Government actions favouring small business survival were taken because, as indicated above, it was perceived to be in the public interest to encourage small business. Similarly, it was seen to be in the public interest to have lower automobile insurance and drug costs and to have a greater return to the public from the mining industry. Thus, in the short run, the government actions were based upon the

public interest. Furthermore, the public interest was apparently served in the short and intermediate run as automobile insurance did not rise dramatically in price, prices of some drugs were definitely reduced and more money was received from mining companies.

Long Run Effects Unknown

Long run effects on the public of the government actions are uncertain. The Manitoba Public Insurance Corporation sustained losses approximating ten million dollars in both 1973 and 1974 and future rates are probably going to rise. It is felt the Manitoba drug substitution program will have little effect upon research activities of drug companies. However, if mandatory substitution become widespread the possibility of research activities of drug companies being curtailed is very real. In the mining case the time horizon of company planning has been shortened and the effects of this on whether companies will choose to remain in Manitoba, are still largely unknown. The ultimate benefit to the people of Manitoba from the mining industry policy is dependant on the success of government companies in finding new mineral deposits, a highly uncertain activity.

Further Government Actions

Each of the pieces of legislation passed resulted in future actions or caused problems requiring future governmental action. The Automobile Insurance Act has subsequently been amended to allow the Manitoba Public Insurance Corporation to also sell fire insurance, and there is talk of future entry into life insurance. These additions can be regarded as attempts to partially compensate for losses in automobile insurance. After introduction of drug substitution a

program of partial, and then total, pharmacare has been introduced.

Introduction of the new mining policy created the problem for the government of finding new mineral deposits. This, it is anticipated, will require substantial amounts of public funds.

Private Industry Managers Eliminated

The automobile insurance legislation resulted in withdrawal of a number of insurance companies from the province. This obviously eliminated job opportunities for automobile insurance managers in private industry. At the same time, however, employment opportunities were available with the Manitoba Public Insurance Corporation. Hence, a shift of managers from private to public employment.

In the mining industry some managerial jobs were lost when Sherritt Gordon Ltd. made its decision to cease drilling operations in Manitoba.

In addition to eliminating jobs. There is also a curtailment of the decision autonomy of jobs remaining. Drug company managers lost the autonomy to decide what price their product is to be sold at, mining managers lost control of funds as taxes increased, and they lost the autonomy to decide who to enter into partnership with on new exploration projects.

Effectiveness of Business Managers' Participation in the Process of Government Policy Formulation

The effectiveness of business managers in bringing about system changes desirable to them, or in preventing system changes undesirable to them, can be succinctly summarized by saying that:

Business managers' participation in the process of govern-

ment policy formulations was not effective in any of the three cases.

There were two types of considerations, one controllable and the other not controllable by business managers, responsible for business ineffectiveness.

Ineffective Business Actions

Business actions aimed at influencing system outcomes were ineffective in all three cases. This is concluded because, in each of the cases, the outcome was undesirable from the viewpoint of business managers.

There were instances where business managers achieved limited success because they were able to prevent more undesirable system outcomes. The two primary examples were the inclusion of insurance agents in the automobile insurance delivery system and withholding of Bill 82 in the mining case.

Controllable and Uncontrollable Considerations Underlying Business Ineffectiveness

There are controllable factors, such as failure to take action at certain points, and failure to present arguments persuasively, underlying the ineffectiveness of business managers' actions. These indicate inadequacies in the performance of business managers. However, there are also factors uncontrollable by business managers, for example, decisions by government representatives and shifts in public attitude which render business managers' actions ineffective. Conclusions regarding the nature of controllable and uncontrollable factors are included in the two following sections.

The Process of Government Policy Formulation

The uncontrollable factors, or activities, underlying the failure of business managers to prevent undesirable system outcomes are implicit on the process of government policy formulation. Understanding of the process is essential to reasoned and effective participation in it over a period of time.

The most significant conclusions about the process of government policy formulation are:

- . . The model of stages of the process of government policy formulation proposed in the research is appropriate in all three cases.
- . . The rational, organizational and political models of the decision process all provided useful insights at different stages. The political model was the one which was most often appropriate.
- . . There are outcomes, or decisions, at each of the different stages of the process of government policy formulation.
- . . Decision makers and influencers of these decisions are not the same at each of the stages.
- . . Decision makers are not business managers.
- . . Some form of motivation is required to move from stage to stage in the process.
- . . Some reversal, or cycling back, in the process was observed.

Stages of the Process

The composite model of the process of government policy formulation put together from the work of Von Petterfy, Whalen and Finer is very appropriate for describing the chronological evolution of each of the three cases. Another model of the process by Nolan is also consistent with the composite model and the data.³

The model supported is:

- (a) Societal Need (unrecognized)
- (b) Recognition of Need
- (c) Articulation of Demand
- (d) Decision to Proceed with Legislation
- (e) Determination of Nature of Legislation
- (f) Drafting of Legislation
- (g) Legislative Consideration
 - First reading
 - Second reading
 - Committee
 - Third reading
- (h) Formulation of Regulations

Nature of the Process

The political model provides the greatest understanding of, or insight into, how decisions were made and most stages of the process of government policy formulation. The model is appropriate where decisions were made and there were different people with different opinions regarding what the decision should be and, furthermore, the relative power of the discussants had an effect on the outcome.

The organizational and rational models of the decision process are also very useful for understanding some stages. The rational stages were characterized by very clearly established, understood and accepted objectives such as product safety in the drug substitution case. The organizational decision processes were characterized by decision outputs similar to outputs in previous related situations.

The political model provides the best understanding in situations that are new or controversial and the organizational model provides greatest insight where the decisions were routine and similar to situations that had been encountered previously.

Outcomes at each Stage of the Process

There is not one single, final outcome to the process of government policy formulation. There are outcomes at each of the stages, and a difference in the outcome at one of the stages can have an effect upon the final outcome.

Decision Makers Differ from Stage to Stage

There is one person who followed the process throughout and was the primary determiner of outcome at each of the stages. The decision makers vary from politicians at the, "Decision to Proceed with Legislation" stage, to civil servants at the, "Drafting of Legislation" stage. Similarly, the people and groups with access to the decision maker and, therefore, an opportunity to influence him vary from stage to stage.

Decision Makers not Business Managers

In the cases, and at the various stages in them, the primary determiners of outcomes are not business managers. They are government representatives. This indicates the need for business managers to be skillful in the art of influence.

Motivation Required to Move from Stage to Stage

In the earliest stages of the process some motivation is required to move from stage to stage, i.e., from "Societal Needs," to "Recognition of Need" and "Articulation of Demand." Once the process reaches the "Decision to Proceed with Legislation" stage it proceeds to the other stages in fairly routine fashion. In the early stages the movement from stage to stage is motivated primarily by a discrepancy between industry practise and the public perception of what proper industry practise should be. In other words, the motivation prior to, and including, a "decision to proceed with legislation" is a discrepancy between the public interest, or in Berle's⁴ terms, expectations of the "field of responsibility," and industry practise.

This discrepancy between public expectation and practise is highlighted by certain events such as election of the NDP and publication of the Kierans' Report which act as catalysts to stimulate movements from stage to stage.

Cycling Back in the Process

There are two instances in the cases which represent cycling back in the process. These are the government decision to reconsider previous decisions in the automobile insurance case and include agents in the system and the decision in the mining case to reformulate Bill 82. These decisions required considerable pressure from influencers.

Actions by Business Managers

Actions by business managers are regarded as one of the reasons they did not have more effect on system outcomes. Major conclusions regarding actions by business managers are:

- .. Actions by business managers neglect early stages of the process of government policy formulation.
- .. Actions by business managers are directed at politicians to a greater extent than at civil servants.
- .. The messages contained in business managers' arguments are often not persuasive to government representatives.
- .. Different types of actions are effective at different points in the process of government policy formulation.
- .. Business managers have a basic approach to participation which individual actions are based upon.

Actions Neglected at Early Stages

The hypothesis that,

Actions by business managers will tend to be concentrated at the later stages of the process of government policy formulation, was shown to be correct. The implication of neglecting action at early stages is that it allows situations which could possibly be handled without major system effects, to grow and become legislative considerations resulting in system changes. The early stages of "Recognition of Need" and "Articulation of Demand" were given virtually no attention by business managers.

Actions Directed at Politicians

Actions by business managers were directed primarily at politicians and not at civil servants. The implications of this can be undesirable for business managers because civil servants do substantial analytic work and provide decision options to politicians.

If a good relationship is established with the civil service greater potential for influence exists.

Messages not Persuasive

One of the study hypotheses was that,

Business managers would not tend to present their arguments in the process of government policy formulation in a persuasive fashion.

There are some examples of persuasive business actions but many of them were not persuasive. The major characteristics distinguishing persuasive from non-persuasive actions is that persuasive ones presented a message to the government representative in terms that were important to him at the time in dealing with situations he faced, while non-persuasive arguments were presented without taking the viewpoint of the government representative into account. Non-persuasive arguments often presented a strictly business point of view advocating maintenance of the status quo.

It is concluded that it is important to take the public interest, or the sentiment of the politicians field of responsibility into account in deciding upon action to take with respect to government representatives.

Different Types of Action Effective at Different Stages

Combining the two ideas that, first there are separate decisions by different people at the various stages of the policy formulation process; and second, that persuasive action requires a message which takes into account the viewpoint of the government decision maker; it was deduced that different types of business

actions would be required to be effective at different stages of the process. The data in the three case studies supported this conclusion. At stages best understood in terms of a political decision model, bargaining strength was necessary while at stages best understood in terms of the rational decision model, analytic, factual arguments were necessary.

Basic Approach to Participation

In each of the three cases industry managers had an underlying plan for how to participate in the process of government policy formulation. The underlying plans ranged from co-operation to political conflict but individual actions were taken which tended to be consistent with the plan. Existence of such a basic plan suggests that business managers possess a concept, explicit or implicit, and correct or incorrect, of what the governmental process is and how to influence it.

Factors Underlying Business Ineffectiveness

To this point, conclusions indicate that system changes occurred, with government control replacing business control; that business managers were ineffective in preventing system changes undesirable to them; and that there were uncontrollable activities associated with the process of government policy formulation and controllable actions by business managers which accounted for the ineffectiveness of business managers. This section contains a summary of the factors underlying the anti-business uncontrollable activities and the ineffective, controllable, business actions..

Factors Underlying Uncontrollable Activities

The major factors underlying uncontrollable activities which provided forces contrary to business influence are summarized in this section. They include general societal factors which provided an impetus for system changes, government/political factors which contributed to changes and individual factors which contributed to changes.

General Societal Factors Underlying Uncontrollable Activities

General societal factors that contributed to system changes unfavourable to business managers include:

- . . . An apparent increase in the public's acceptance of government control over and involvement in business.
- . . . The existence of a committed group (politicians and non-politicians) of advocates of greater government control over business.
- . . . A perception that the public interest was at variance with the actions of business managers.
- . . . Public support for local control of the financial destiny of the province and a preference for small business as contrasted to big business.
- . . . Public acceptance of the argument that prices were too high was a contributing factor to government action in the drug substitution and automobile insurance cases.
- . . . The fact that drugs and automobile insurance were almost universally used products apparently heightened the interest and concern of the public.
- . . . Talk of a possible world shortage of minerals was a factor of governmental consideration in the mining industry case.
- . . . An anti-business feeling in at least some sectors of the population made it possible for government representatives who spoke against business to be accepted.

Government/Political Factors
Underlying Uncontrollable
Activities

There are two types of government political factors underlying uncontrollable activities which contribute to business managers' ineffectiveness. First, there had to be motivation for government representatives to propose increases in control over business. Secondly, government representatives had to feel they had, or could develop, the ability or competence to perform adequately after introduction of system changes.

Motivation to increase control over business was contributed to by:

- .. The public perception of business. This provided public support for actions against business.
- .. The personal beliefs of government representatives that operations of businesses were not in the public interest.
- .. The need to raise money for government expenditures.
- .. The hiring of civil servants with attitudes toward business similar to those of elected politicians.

The ability, or competence, of government representatives to do the job implied in the take over of control from business managers was contributed to by:

- .. The feeling that the government could successfully undertake the job as in the automobile insurance and mining cases.
- .. The successful implementation and operation of similar programs in other provinces.
- .. The analytic tools available to the government including experienced personnel who could be hired and hardware such as laboratory or computer facilities.

Individual Factors Underlying
Uncontrollable Activities

Individual factors underlying uncontrollable activities that contributed to business ineffectiveness included:

- . . . The negative attitude of some civil servants and politicians to business and business practises.
- . . . The political skills displayed by politicians in the process of government policy formulation.

Factors Underlying Ineffectiveness of
Controllable Business Actions

It is concluded that there were two general types of factors underlying the ineffectiveness of controllable business actions.

These were industry/organizational factors and individual factors.

Industry/Organizational Factors
Underlying Controllable Business
Actions

Industry/organizational factors underlying controllable business actions included:

- . . . Little planning for action by business managers. The hypothesis that, "business actions in the process of government policy formulation were decided upon in an unplanned fashion" was shown to be correct. Associated with a lack of planning for business actions was; a poor size-up, or appreciation of the characteristics of the process of government policy formulation, a failure to anticipate problems before they become serious (which could account for the failure to take action at an early stage of the process of government policy formulation), little actual analysis of alternative actions and a tendency to take actions one at a time rather than as part of an overall sequence of conditional moves.
- . . . There was little or no consideration of the public interest, as perceived by the government, as a decision criteria in deciding upon business actions. Business managers tended to look at profit as the primary criteria.
- . . . Whatever differences there were in the level of technology.

between industries did not help in influencing the government.

- . . There were difficulties which had to be overcome before industry managers were able to present a united front to government.
- . . Actions were taken with little consideration of their effect upon the future bargaining strength of the business group.

Individual Factors Underlying Controllable Business Actions

It was concluded that individual factors underlying controllable business actions and their ineffectiveness included:

- . . Business managers in the three cases had no training to deal with the government policy formulation process.
- . . Business managers in the three cases had little or no experience in dealing with the government policy formulation process, especially where an NDP government was involved.
- . . The lack of training or experience resulted in a lack of understanding of the process of government policy formulation, and of the skills and attitudes required for success in it, particularly in the initial stages of involvement.
- . . Business managers were unable to devote their full time to participation in the process of government policy formulation as they had other job responsibilities as well.
- . . The attitude of some business managers that they were defenders of the faith of free enterprise made it difficult to adopt an attitude of compromise and negotiation necessary for effective participation in the government policy formulation process.

Summary

This chapter contained a summary of the most important conclusions of the research project. In broad terms, it was concluded that there were system changes and government control

supplanted business control; business managers' participation in the process was ineffective in preventing undesirable changes; there were controllable actions and uncontrollable activities responsible for the system changes and the business ineffectiveness; uncontrollable activities were related to the process of government policy formulation which was composed of a number of stages and in which most decisions were made by a bargaining process; controllable business actions were characterized by participation at later stages of the process with actions directed primarily at politicians and containing an argument designed to support the businesses' status quo in the system; there were societal (public interest), governmental/political and individual factors underlying the uncontrollable activities contributing to system changes; and there were industry/organizational (e.g., lack of planning and no consideration of public interest); and, individual (e.g., lack of training and experience, lack of time to participate and business manager attitudes) factors underlying actions by business managers.

¹A.A. Berle, *Power* (New York: Harcourt, Brace and World, 1967), p. 262.

²D.H. Thain, "The Coming Crunch in Federal Government - Business Relations," The Business Quarterly, Autumn 1970.

³Joseph Nolan, "Protect Your Public Image with Performance," Harvard Business Review, March-April 1975. Nolan described three phases of growth of public issues. First, is the dormant stage when the issue is recognized by relatively few. The next phase is the opinion development phase where the issue has been subject to public scrutiny (recognition of need) and open debate has begun (articulation of demand). The final phase is the institutional action phase where the Congress, state legislatures and the courts become involved, i.e., all the stages from Decision to Proceed with Legislation to Proclamation.

⁴Berle, Power, p. 262.

Chapter 13

RECOMMENDATIONS

Introduction

The problem addressed in this research is that increasing government involvement in business, by separating responsibility and authority for major decisions, has made the tasks of formulation and implementation of corporate strategy more difficult. Increasing government involvement has also created the problem of what business managers' response to it should be. The objective of the study was therefore, to describe, assess, and comment upon business participation in the process of government policy formulation.

This chapter contains suggestions for future business participation in the process of government policy formulation. The chapter also contains suggestions for how government representatives can improve government-business relations, and by so doing, provide greater benefits to the public. Finally, the chapter contains suggestions for academics regarding future course development and research.

Suggestions for Business Managers

The General Approach

Three options for business managers' participation in the process of government policy formulation were outlined in the introductory chapter. The options considered were: (a) minimum

participation, (b) limited participation, or (c) active participation.

Minimum participation would obviously not halt the increase in government involvement in business. In fact, it would probably increase the rate and scope of government involvement. The long run consequences of this approach, would probably be an increase in government involvement in business, a decrease in government-business understanding, an increase in uncertainty regarding the future legislative framework, and adoption of an increasingly short run outlook by business managers. The short run outlook of managers would make them unwilling to commit funds for long term investment and lead to constant readiness to leave the province, as Sherritt Gordon Ltd., for example, did with its exploration activities. This short run outlook would be detrimental to business, and equally if not more to society, because it would be a counterforce to the capital accumulation necessary for productivity increases.

Limited participation, the usual approach of most business managers is also not regarded as effective. Limited participation could be interpreted as token participation, or business action only when there is fear of harm to business. This would further damage the image and credibility of business. In addition limited participation normally also indicates limited understanding and appreciation of problems faced by governments in policy formulation. Continued limited participation would probably result in continuing frustration and uncertainty for business managers as government involvement in business increased.

Active participation by business managers would be most

beneficial to business, and to the public interest in the long run. One important consequence of more active participation by business managers would be more complete analysis and understanding of the consequences of legislation. In other words, legislation introduced would be better. The active participation option would also result in a fuller understanding of the process of government policy formulation by business managers, who could understand things even if they were decided contrary to business interests.

In addition, both of the first two options offered little hope of slowing down the ever increasing control of business by government. If that goal is achievable, active participation in the process of government policy formulation offers the only hope. It was, therefore, concluded that active participation by business managers was the best course to follow.

Guidelines for Active Participation

Given the assumption of active participation in the process of government policy formulation the next task is to suggest to make their more active participation effective. Unfortunately no simple guidelines are possible. There are no apparent easy, sure fire, ways to guarantee that business actions will have desired effects.

Success is never guaranteed, because business managers do not, and probably never will, control the major decisions in the process of government policy formulation. Consequently business managers can, in some instances participate very actively and still encounter undesirable results, as happened in the automobile insurance case.

The analysis indicated that a motivation for initiation of

government action was perception of a discrepancy between business operating practises and the public interest. In addition to simply participating more actively, business managers must direct actions to narrowing the gap between the public perceptions of business operating practises on the one hand and the public interest on the other. This means that business managers must have an understanding of what the public interest is and be able to relate activities to it, particularly at the earliest stages of the process of government policy formulation.

General types of activities undertaken could include things intended to shape public attitudes such as research to determine public attitudes or campaigns to show benefits associated with a strong business sector.

Business managers could also take actions to clear up misunderstandings about discrepancies between the public interest and business practise. Examples of this type of action include publication of company views on controversial issues, meeting with public figures, and supplying information to government representatives when requested. Another way to narrow any perceived gap between industry practise and the public interest would be to adjust industry practises or positions where they are in conflict with the public interest.

Implementation of Recommended Types of Actions

To effectively implement a program of active participation at all stages of the process of government policy formulation which will narrow the gap between perceptions of business actions and the

public interest, business managers need certain knowledge, certain skills and certain attitudes. These are different than the knowledge, skills and attitudes currently possessed by most business managers.

This section indicates the types of knowledge, skills and attitudes necessary for effective action in the process of government policy formulation.

Knowledge Useful in Dealing with Government

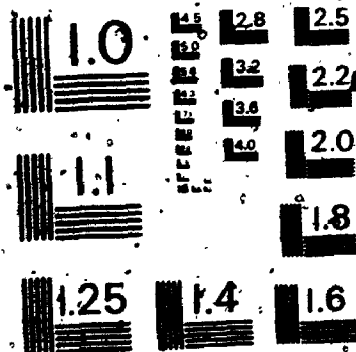
Knowledge, as the term is used here, refers to concepts, information and procedures useful to a business manager in understanding and dealing with a government. With respect to the knowledge requirement it is recommended that anyone involved in, or to be involved in, dealing with the governmental process should:

- (a) Understand the process of government policy formulation. This involves understanding the stages of the process of government policy formulation, the primary determiners of action at each stage, the motivation for moving from stage to stage, and the decision process at each stage. It also involves understanding the details of the process at each stage, including the characteristics of various government representatives.
- (b) Effective participation requires consideration of action at all stages of the process of government policy formulation. It is apparent that no simple minded statement, such as concentrate at this stage or that stage, will suffice as a guideline for how business managers should take action. The most useful guideline is to suggest that business managers be aware that there are a number of different stages to the government policy formulation process for any new piece of legislation, and that a large number of different people are involved at each of these stages. Following from this knowledge should be a willingness on the part of business representatives to monitor the various stages and the people involved and to not underestimate the potential importance of any person involved.
- (c) Knowledge of the concept of power and its effective use is also a requirement for anyone interested in being an effective business representative. Requirements of the concept of power include:

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MICROCOPY RESOLUTION TEST CHART
NATIONAL BUREAU OF STANDARDS-1963-A

- .. Understanding the government process.
 - .. Determining the factors that are going to be important considerations to government representatives by understanding the situation from the government point of view as well as the business point of view.
 - .. Formulating arguments in terms of the factors that are persuasive to government representatives to convince them it is in their best interests to adopt the desired course of action.
 - .. Presenting the arguments to emphasize the strengths of the bargaining advantages business managers possess.
 - .. Exhibiting an appropriate degree of tenacity and determination in making presentations to government.
 - .. Doing the work required to be able to assess the political implications of actions taken by business representatives, rather than just blindly taking action independent of any thought of what effect the action will have on the business position in the future.
- (d) Knowledge of how to effectively plan business actions is also recommended for business managers dealing with government. This involves a detailed understanding or size-up of the government-business system, an anticipation of problems arising in the system, knowledge of how to assess alternative courses of action and select the most appropriate one, and knowledge of how to lay out a timed sequence of conditional business moves or actions.

It was seen as extremely important that as many people as possible involved in deciding upon what business actions to take should decide upon their position in a rational, planned fashion. In that way there will be at least some people involved in any discussion who have done the detailed analytic work necessary for rational decision.

Skills Useful in Dealing with Government

There are certain skills it is recommended be acquired, if not already possessed by, business managers participating in the process of government policy formulation. Some of these relate to application of the knowledge concepts and procedures outlined above.

Types of skills include:

- (a) Political skills for dealing in the process. It is important to be able to determine what the public interest is, how other people will react to actions taken and what the effect on business power of certain actions will be. These are currently skills, necessary for good politicians rather than good businessmen. It is, however, viewed as essential that the skills be developed if business managers hope to be successful in the process of government policy formulation in the future.

Associated with political skills are skills at bargaining and negotiation.

- (b) Analytic skills are necessary to implement the planning concept for deciding upon business action. The ability to size-up a situation in real, objective terms without allowing emotion to cloud the issue is seen as an important skill.
- (c) Leadership skills are also seen as necessary. This is because deciding upon business action often involves a number of people with conflicting views. Leadership skills are necessary to go through the process required and come up with a consensus decision that still has a change of being effective.

Attitudes Useful in Dealing with Government

Attitudes useful for business managers participating in the process of government policy formulation include:

- (a) An outward looking attitude, willing to consider and understand the point of view of others including representatives of the public and government. This is in contrast to being inward looking and thinking only in terms of the status quo and what is good for the business firm or industry. To influence another person it is necessary to present arguments which take his viewpoint into account.
- (b) A willingness to negotiate, and compromise if the need arises, is an important attitude for anyone wishing to participate in the process of government policy formulation.
- (c) A positive attitude toward the role being performed by business in society is necessary.
- (d) A positive attitude is also necessary because there will be failures and defeat as well as successes. A positive attitude and a real understanding of what the job is and what it involves is useful.

Development of Knowledge, Skills and Attitudes

The knowledge, skills and attitudes can be acquired by interested business organization by some combination of training current employees and allowing them to gain experience, and recruiting selected people on either a full-time or advisory basis.

Some focus for control of government related activities within a firm is necessary, therefore, this responsibility should be given to a full time manager of government relations. If the resources are not available to support a full time person, the responsibility should be given to someone who has the capability to handle the government relations task along with his other responsibilities.

Suggestions for Government

Suggestions for government are made with the objective of indicating actions government could take to improve governmental-business relations. The underlying assumption is that business managers had a positive contribution to make to the public interest. Therefore, it is in the best interest of government to facilitate the best possible government-business relationship to utilize the attributes of business managers.

Recognize Potential Business Contribution

Government representatives should recognize the skills, abilities and values of business managers as important to the ongoing success of the economic system. This is not to say that these skills, abilities and values related to things such as profitability,

productivity, and capital accumulation, could not be acquired by government over a period of time, but at the present they reside in the business sector. They are important to the public interest because an economy needs productivity increases to support and increase the present standard of living.

Define Public Interest for Business Managers

One valuable service government representatives can perform for business managers is to define the public interest for them with respect to specific issues. This would encourage business managers to think in terms of the public interest, and give them an opportunity to contribute toward it without the government having to impose legislative controls. This suggests greater use of moral suasion or government persuasion as an alternative to legislative controls to achieve governmental objectives.

Government-Business Planning

Planning by government is necessary if there is to be an attempt to understand the long range consequences of legislation. To understand potential consequences of legislative actions research is required.

The planning process is aided greatly by including business managers in it. It provides an institutionalized opportunity for discussion and debate on the objectives of government actions and the means for attaining objectives. It is an excellent way to bring as much expertise to bear upon important problems as possible. Planning provides another avenue for government influence without

the necessity of introducing legislation.

Give Business Opportunity to Participate

Do not cut business managers off from government thinking and plans. When this occurs it, understandably, creates tension and suspicion in the government-business relationship. Government representatives should let business managers know what their thinking is. Ways to make draft legislation, or its contents, available to business managers should be devised to give an opportunity for examination of and comment upon government plans before they are implemented.

Better legislation for all concerned will result if government representatives give business managers an opportunity to contribute to it. However, they should insist on good contribution from business managers.

Understand Business Managers

In the same sense it was suggested that business managers endeavour to improve their understanding of government and government representatives, it is suggested that government representatives improve their understanding of business and business managers. Improved mutual understanding will lead to greater sympathy for the position of the other, and ultimately will lead to better policies.

Suggestions for Academics

The suggestions for academics in this section are of two types. First are suggestions for increasing the teaching emphasis on the problems of government-business relations. The second type

of suggestion is for additional research to continue to improve understanding of the process of government policy formulation and business participation in it.

Increased Teaching Emphasis

Business educators can play an important role in improving government-business relations, and participation by business representatives in the process of governmental policy formulation. One thing they can do is prepare more teaching material relevant to the area. Case studies, articles, and textbooks would all be useful, and are required. An increased number of courses in government-business relations, especially management training, adult, and in-house courses, should be offered. Courses should be designed for business representatives to learn more about government and for government representatives to learn more about business.

Suggestions for Research

This research project had as its objectives describing, and assessing and commenting upon business participation in the process of government policy formulation. It was an introductory piece of research intended to provide an understanding of business participation in the process of government policy formulation. The sample of processes of government policy formulation selected for study was three legislative processes in Manitoba.

Study Another Sample

One suggestion for further research is to study another sample of processes of government policy formulation. Manitoba,

with its NDP government, provides a unique situation. It is possible that research in other jurisdictions could indicate slightly different findings. Investigation of the process of government policy formulation at the federal level could be considered. The process in another province (preferably with a non-NDP government) could be studied. Another possibility would be a study of similar pieces of legislation in different provinces.

Study of Another Type of Government Activity

Legislation is only one type of action open to government representatives. Others include establishment of regulatory boards, commercial operation of government, and governmental suggestion (e.g., moral suasion, joint government-business planning). A research project to determine the nature of the process underlying each of these, and how business could participate in and influence it, would be extremely valuable. It is possible that business organizations with closer ties to government, as implied by a regulatory or commercial relationship, could have a greater influence on government.

More Detailed Study of Aspects of the Process of Government Policy Formulation

Other opportunities for further research exist in more detailed study of specific aspects of the process of government policy formulation and business participation in it. Some of these are outlined below.

The "public interest" is a term used frequently in the study. It is important for moving the process of government policy

formulation from stage to stage. It was an important decision criteria for government representatives. It was also recommended that business managers consider the public interest when formulating their actions. However, there is a need to be able to determine what the public interest is. Research on the topic could be extremely valuable.

The complex of interrelated public, government and individual factors contributing to increased government intervention in business is not thoroughly understood. Research aimed at achieving a greater understanding of these could be useful.

Von Petterfy's research was intended to provide a framework for forecasting, or anticipating future government actions. Opportunities exist for further research in this area, particularly as applied to different levels of government in Canada.

Comparative study of business managers, government representatives and the public could indicate differences in attitude and outlook which contribute toward tensions in a social system and lead to disequilibrium and subsequent legislative changes.

Specific actions in specific situations. This research indicated differences in the type of business action which would be effective at different points in the process of government policy formulation. Research to further develop this concept would be valuable.

Evaluation of effects of government programs. The whole question of the desirability of increasing government involvement in business comes down to the long run effect it will have on the citizens of the country. At this point, determination of the long

run effects of legislation is not a feasible undertaking. Research on this question could be extremely valuable.

Summary

This chapter contains suggestions for future actions by business managers, government representatives and academics. Recommendations for business managers emphasize the importance of taking the public interest into account in making decisions. It is suggested that business managers participate in shaping the public interest and then take it into account in their decision making. To effectively execute actions in the process of government policy formulation it is recommended that business managers have certain knowledge, skills and attitude. These can be obtained either by training existing managers, and allowing them to acquire experience or recruiting managers.

It is recommended that government facilitate participation by business managers in the process of government policy formulation. It is suggested that academics can make a real contribution to improving government-business relations by developing and offering courses in the area, and by undertaking research on the multitude of significant problems that exist in the area.

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PENDIX A
REFERENCE MATERIAL FOR
AUTOMOBILE INSURANCE CASE

Exhibit A.1

Letter from H. B. Vannan to
Premier Schreyer, September 12, 1969

September 12, 1969

The Honourable Edward Schreyer
Premier
Province of Manitoba
Legislative Building
Winnipeg, Manitoba

Dear Mr. Schreyer:

In accordance with our meeting with you of August 7, 1969 we are setting forth herewith a list of topics in regard to automobile insurance which we think will be pertinent to your exploration of automobile insurance in the Province of Manitoba.

They are not necessarily set down in order of their importance nor is this list exhaustive. We would be interested in having your committee's ideas on any additional subjects which should be added to this list:

1. Retention of the Tort System.
2. (a) Compensation without fault.
(b) Basic accident benefits on a voluntary basis.
(c) Compulsory insurance in relation to (a) to (b).
(d) The British Columbia plan for indemnity in the event of disability or death.
(e) Limitation of pain and suffering (formula 50 percent of the first \$500.00 medical).
3. (a) Exploration of methods of limiting costs resulting from third party property damage claims.
 - (i) Vehicle to vehicle.
 - (ii) Other property.
(b) British Columbia plan for limitation of third party property damage pros and cons of a limit of \$250.00 as opposed to \$100.00
 - (i) Buy-back allowed.
 - (ii) No Buy-back allowed.
 - (iii) Individual right to recover in small debts court.
4. Advantage of uniformity in Provincial plans.

5. Ways and means of controlling repair costs.
 - (a) Liaison with garages and body shops.
 - (b) Physical damage appraisers.
6. Ways and means of reducing accidents.
 - (a) Driver licensing - review board.
 - (b) Enforcement including breathalyzer.
 - (c) Driver training.
 - (d) Street and highway safety (refer to Alberta Road Safety Programme).
 - (e) Impact of frequency and severity and what effective controls available to
 - (i) Government.
 - (ii) Industry.
7. Elimination of subrogation for hospital and medical payments.
8. Pros and cons of insurance following the driver rather than the vehicle.
9. Evolution of Saskatchewan's present plan.
10. Unsatisfied judgement funds.
11. Industry statistical plan and rate making procedures.

The following personnel are recommended to form a pool of individuals available to work either as part of the Manitoba Automobile Committee or as an advisory board.

Insurance Bureau of Canada Directors

- H.B. Vannan, Chairman, Western Advisory Committee of the Insurance Bureau of Canada, Vice President, The Canadian Indemnity Company, Winnipeg, President, Independent Insurance Conference.
- C. Trites, General Manager, Wawanesa Insurance Company, Winnipeg.
- R. Stevens, Manager for Canada, Norwich Union, President, Canadian Underwriters' Association, Toronto.
- A.E. Warrick, President of the Northwestern Mutual, Vancouver.

Company Technicians

- M.R. Ivey, Branch Manager, Gore Mutual, Winnipeg.
- D.E. Whitehouse, Underwriting Manager - Automobile Department, The Canadian Indemnity Company, Winnipeg.
- G. Budden, Secretary Automobile Branch, Canadian Underwriters' Association, Winnipeg.

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Insurance Bureau of Canada Local
Representatives

J. Swanson, Branch Manager, Guardian Group, Winnipeg.
J.M. Dowler, Vice President, The Canadian Indemnity Company, Winnipeg.

Insurance Bureau of Canada

R. Wilson, Q.C., Legal, Toronto.
E.H.S. Piper, Legal, Toronto.
C.L. Wilson, Actuary, Toronto.

Facility

H.E. Wittick, Consulting Actuary for the Facility, Montreal.

Agency Personnel

R. Cooper, Chairman of the Automobile Committee, Manitoba Agents
Association.
G. Tatlock, President, Manitoba Agents Association.
G.W. Rattray, Representative, Federation of Canadian Insurance Agents.
Other specific requirements are known.

It is not recommended that all of these people attend every meeting. There should, however, in every instance be an Insurance Bureau of Canada Director and a representative of the Agents Association at each meeting. Other individuals may be added dependent upon the subject to be covered. Possibly not more than five should be in attendance at any one meeting.

We would appreciate in due course, receiving an agenda of the Manitoba Government Committee on Automobile Insurance and after we have had an opportunity of meeting with your people, the insurance industry are prepared to present a constructive programme of automobile insurance for the citizens of the Province of Manitoba which will be as comprehensive and economical as possible.

At your convenience, we would appreciate having the date you propose for the initial meeting.

Yours very truly,

M.B. Vannan
Director, Insurance Bureau of
Canada

HBV/md

Exhibit A.2

Letter from Howard Pawley to
H.B. Vannan, October 15, 1969

October 15, 1969

Mr. H.B. Vannan
Director
Insurance Bureau of Canada
333 Main Street
Winnipeg, Manitoba

Dear Sir:

This is in reply to your letter of September 12th last to the Premier, in reference to the proposed examination of automobile insurance in the Province of Manitoba.

It is the intention of the Government to appoint a Committee shortly, which will carry out a study of the automobile insurance field and bring forward recommendations. We hope that the recommendations of the Committee will be available for presentation as proposed legislation at the 1970 Spring Session of the Legislature.

Until the Committee is appointed and its terms of reference enunciated, I am obviously not in a position to speak for it. During our meeting on Monday, October 6th, 1969, we were able to discuss the situation more thoroughly and I believe my position was explained very clearly to you.

Yours truly,

Howard Pawley

Copy to
Hon. Ed. Schreyer

Exhibit A.3

Letter from Howard Pawley to
H.B. Vannan, November 3, 1969

November 3, 1969

Mr. H.B. Vannan
Director
Insurance Bureau of Canada
333 Main Street
Winnipeg, Manitoba

Dear Mr. Vannan:

You are undoubtedly aware of the formation of the Manitoba Automobile Insurance Committee and of its personnel. Public notices will be appearing in the newspapers and announcements on radio stations throughout the Province inviting written submissions from all segments of the public. A copy of the intended text of the notices is attached for your information.

As Chairman of this Committee, I wish to state that it is our desire to take advantage of whatever facilities, statistics, presentations, etc., the insurance industry is prepared to offer to us, and in this respect I have reference to your letter of September 12, 1969, addressed to the Premier. If you intend to form a Committee representing the industry then the Automobile Insurance Committee would be prepared to meet with your committee from time to time as the need arises. It would of course, be necessary to schedule these meetings in advance, for the convenience of both groups in respect to their other responsibilities and commitments.

Our Committee intends to receive written submissions only. After examination of the submissions the Committee may invite a particular group or individual to appear before it for questioning, or for clarification of the submission. Upon such occasions, we are prepared to have members of your committee attend as observers, and provide you with copies of the particular submission prior to the hearing with the approval of the submitter.

I wish to emphasize that the government will not permit members of your group to attend all meetings of our Committee, nor to participate in any way in the formulation of the final recommendations of the Committee. I must also point out that the Committee is obligated to present its recommendations by December 31, 1969. This necessarily imposes restrictions on the time available for these quasi-public activities.

Perhaps you will propose a date when it would be convenient for us to meet to discuss these proposals in greater detail. In the

meantime, it may be advisable to withhold these proposals from public discussion.

Yours truly,

Howard Pawley

/j11

Exhibit A.4

Letter from H.B. Vannan to
Howard Pawley, November 3, 1969

November 3, 1969

Hon. Howard Pawley
Minister of Government Services
Room 333 - Legislative Building
Winnipeg, Manitoba

Dear Mr. Pawley:

As Chairman of the Western Advisory Committee of the Insurance Bureau of Canada and as a member of the business industry of Manitoba, I would like to record my concern over the membership, terms of reference, and operating procedures of your automobile committee.

At a meeting with Premier Schreyer and yourself in August it was indicated that the Government of Manitoba had an open mind on the question of automobile insurance and that the Government was not, by philosophy, committed to a program of socialized, state-operated automobile insurance. At that time Mr. Schreyer indicated that he was interested in improving the automobile insurance system in Manitoba and that he was willing to consider any system which would lead to better service.

The insurance industry, through the Insurance Bureau of Canada and other organizations, responded to this invitation to co-operate by naming a special committee, complete with technical personnel, to work with the Government. This list of personnel, along with a list of suggested topics for discussion, was submitted to the Honourable Edward Schreyer on September 12, 1969.

Since that date, the industry has had no formal communication from the Government. The Government, rather than following a pattern of co-operation as it had promised has in the meantime, unilaterally:

- named as its insurance consultant the former assistant general manager of the free world's only monopoly, government operated automobile insurance system, Mr. R.D. Blackburn;
- named as his assistant, Mr. David Randall whose major apparent qualification is the authorship of a book which castigates the insurance industry;
- named a commission of inquiry which, rather than being impartial consists of yourself, a NDP cabinet minister, the aforementioned Mr. Blackburn, and a defeated NDP candidate from the Brandon civic election.

- without any consultation or warning to the industry set a schedule of hearings which make it virtually impossible for the industry to prepare adequate briefs.
- taken as the commission's first priority a study on the advisability of a government operated automobile insurance system.

The entire insurance industry welcomed the type of hearing which was first suggested to us. Examination of the complex subject of automobile insurance by a group representing both government and industry, which understood the requirements of the people, the requirements of the business community, and the requirements of government, could have resulted in a conclusion which represented real progress.

We are concerned that your government has apparently forsaken this line of inquiry in favour of an inquiry which is obviously devoted to political partisanship.

The insurance industry remains anxious to co-operate with government. The Insurance Bureau of Canada and other segments of the industry may well submit briefs to your committee.

However, the actions of the Government and your Committee over the past few weeks give us grave concern over the sincerity of the Government in its professed desire to negotiate with the insurance industry and other representatives of free enterprise in Manitoba.

Yours very truly,

H.B. Vannan
Director
Insurance Bureau of Canada

HBV/md

c.c. Premier Edward Schreyer

Exhibit A.5

Letter to Premier Schreyer from
H.B. Vannan, November 12, 1969

November 12, 1969

The Honourable Edward Schreyer
Premier
Province of Manitoba
Legislative Building
Winnipeg 1, Manitoba

Dear Mr. Premier:

At a recent meeting, the Board of Directors of the Insurance Bureau of Canada approved the submission of a brief to your government's committee on automobile insurance. Formal notice has gone to the committee.

The Directors also asked me to endeavour to arrange a meeting with you and Mr. Pawley in order to re-establish communication between your government and the insurance industry.

While we appreciate the forthright attitude which Mr. Pawley has expressed concerning the operations of his committee, there are several items, which may not fall within the purview of the committee which we feel require clarification.

I am available at your convenience to meet with you and to arrange for other segments of the insurance industry which should also be represented at the meeting.

Sincerely,

H.B. Vannan, Chairman
Western Advisory Committee
Insurance Bureau of Canada

HBV/tes

cc: Honourable Howard Pawley
Minister of Government Services

Exhibit A.6.

Letter to H.B. Vannan from
Premier Schreyer, November 28, 1969

November 28, 1969

Mr. H.B. Vannan, Chairman
Western Advisory Committee
Insurance Bureau of Canada
c/o The Canadian Indemnity Company
333 Main Street
Winnipeg 1, Manitoba

Dear Mr. Vannan:

I have your letter of November 12th in which you suggest that a meeting be held between the Directors of the Insurance Bureau of Canada, the Honourable Howard Pawley, Minister of Government Services, and myself in order to consider certain aspects of the insurance industry in Manitoba.

I have discussed the matter with the Minister, who is chairman of the Automobile Insurance Committee, and we believe that it would be best not to hold any private meetings while the Committee is holding public hearings.

Your interest in this important matter is much appreciated and I know that you will raise with the Committee all the points which in your opinion require clarification.

With kind regards,

Yours sincerely,

Edward Schreyer

Exhibit A.7

Excerpts from Sylvan Leipsic's Brief to the
Automobile Insurance Committee, November 14, 1969

Brief to Manitoba Automobile Insurance Committee by Sylvan
Leipsic - Vice-President - Aronovitch & Leipsic Limited. (November 14,
1969).

- One of the largest Insurance Agency and Real Estate Firms in Winnipeg.
- Actively engaged in Insurance for thirty years.
- Have made submissions to the Manitoba Legislative Committee on highway safety four or five years ago and was one of the Agents Association's principal witnesses in Ottawa at the Restrictive Trade Practices Commission enquiry on Automobile Insurance in 1959.

As I understood the Terms of Reference of your Committee is to consider primarily public Automobile Insurance and all other aspects of Automobile Insurance.

However, there is an investigation here as there has been in Alberta, British Columbia, the Ontario Hodgins investigation, Nova Scotia and the Federal investigation under the Restrictive Trades Practices Commission. I would imagine that a good percentage of the individual States have had similar investigations. With the sole exception of Saskatchewan, no Province in Canada or any State to the South of us has deemed it feasible or in the public interest to make any great change in the method of handling the Automobile Insurance business. True, modifications have been made and some jurisdictions have compulsory insurance. Unsatisfied Judgement Funds and Financial Responsibility Laws have been set up but basically the form of Insurance and its method of handling has remained unchanged.

This does not mean that a change in the public interest is not desirable or possible. More than enough perhaps it indicates the complexity and magnitude of the problem and the difficulty of finding an improvement that will not in many ways worsen the situation.

It has been suggested by our Government that they can solve a problem that nobody else could solve. Perhaps they can and it is my hope that some improvement can be made and that I can contribute a few considerations that will help improve the method of handling Automobile Insurance. I am quite prepared to admit that improvement is necessary and desirable and in certain ways quite possible.

My remarks will be based on the assumption that Automobile Insurance will be compulsory, at least for third party liability and accident benefits available for everyone, regardless of fault.

I would like to consider that the public is dissatisfied in three particular areas:

1. Premium Cost;
2. Service of Claims;
3. Market Availability.

I will deal quickly with the last item of market availability. I think a big improvement has been made here throughout most of Canada when the industry established the so-called "Facility." It is generally felt that the Facility has satisfied the legitimate complaints of the public in providing a ready market for insurance coverage.

That leaves us with the question of Cost and Service. The cost is divided into three principal parts:

1. The pure loss cost, that is, the actual amount of indemnity paid for damage and injury, and insurance companies co-operate on a basis of paying sixty-seven percent of the premium in loss payments.
2. Expense in handling the loss - The allocated loss expense which is the amount paid to a public adjuster, and is actually included in the sixty-seven percent referred to. Then there is the unallocated loss expense which is the insurance company's expense in handling the losses through their various claims departments and the use of their own company adjusters.
3. Administration - This takes thirty-three percent and again I am sure you are familiar with the breakdown. I will refer to this later in detail.

Pure Loss Cost

It may be assumed that the complaint of the public is that on a \$100 premium, not enough is paid for losses and thirty-three dollars is too much to pay for administration.

Perhaps these seemingly impossible costs can be cut. Let's look at the loss factor.

The Government is taking an interest in protecting the consumer from rising interest costs and other items that contribute to high cost of living. May I suggest that it is time that this Government made the strongest representation to the Federal Government, and, in turn, to the car manufacturers, that they will not tolerate wasteful extravagances and costly repairs to automobiles. Automobiles that are not new. I show you an advertisement typical of many showing that automobiles that were originally worth from \$3,000 to \$5,000 are now selling from thirty dollars, seventy-five dollars and \$150.

Gentlemen - Consider a piece of machinery so dilapidated, so depreciated and worn out that it is worth less than five percent of its original cost and we, or I should say, the Government licences these vehicles to operate on our roads.

This is one of your first problems. Take these old cars off the road. For the time being we have to repair automobiles and it is necessary to look at our repair costs.

The B.C. Report indicates that collision repairs are more expensive than property damage, and this is further evidenced by many surveys that have indicated that public dissatisfaction is mostly with third parties. Certainly it is known that repair costs fluctuate. Therefore, it is evident that the establishment, either by the Government or the Industry, of claim centres for appraisals would be in the public interest in order to obtain lower repair cost and at the same time equitable ones.

Some garages making a repair estimate will enquire if it is an insurance claim. If it is, then the estimate calls for a new bumper. If it is not, an insurance claim then they recommend a rebuilt or reconditioned bumper and assure you that it is equally as good as a new bumper but the cost is substantially less.

An investigation of automobile insurance cost might well take in automobile dealers. On occasion I have had to examine the financial statements of established dealers. It is rather interesting to note that the new and used car sales operate at a very nominal profit, but an extremely high profit is made in the service and repair departments.

The conclusion of this is the Swedish system of getting up competitive repair garages which would have a definite affect on the lowering of repair costs. Certainly here the Government, through co-operation with the Industry, would have an opportunity of setting up an accurate cost accounting on repair costs.

So much for some areas where savings can be made in actual repair costs. Regardless of what kind of insurance is sold and regardless of whether the industry or the Government sells it, repair costs will continue to increase and the public is going to have to pay for the increases in premiums.

The next area I want to bring to your attention is the DRIVER.

1. Dealing first with the sixteen to eighteen year old. Traffic violations by so-called underage drivers are handled by the juvenile courts and are not even reported to the licence boards much less the insurance company. This is most ludicrous and if I must say stupid situation and I need not dwell on it at length.
2. Drivers with Bad Records

The following is taken from one of the local newspapers.

Take the case of Wilf X, age 47, for the five year period January 1961 to December 1965. In this five year period he had fourteen convictions, two accidents with injury, five accidents with no injury and three suspensions. He had six offences before he was suspended and the suspension was immediately re-instated on one year probation. Within the next year he had four more convictions before he was again suspended for one month and the suspension was then waived and he was put on a twelve month probation and more convictions and he was then suspended for one week.

Take another case, in a four-year period a man had seven convictions and two accidents and had a suspension for one week and two suspensions each for one month.

And another case, a man received for second offence - two months in jail, another month or \$100 fine for another infraction and confiscation of his car. What was his offense - killing a deer at night and illegal possession of game!

In addition he lost his hunting privilege for a year. Compare this offense and penalties to those given out to bad drivers. Human life is more important than a deer.

Surely we can impose penalties on dangerous drivers just as severe as those imposed on a hunter who illegally kills a deer or a few ducks.

There are a 100 separate dollars in each \$100 of premium. I am trying to bring to your attention how you might effectively save a few dollars out of each component part of the \$100 premium.

- Repair costs.
- Improvement in automobile manufacturing and safety equipment.
- Restriction and investigation of old vehicles.
- Control of drivers.

Will each significantly reduce the loss cost portion of the premium dollar.

Administration

To deal with the matter of the administration cost of thirty-three percent. The only thing we, or any commission knows about administration costs in the automobile insurance policy, is that they cannot be substantiated. This in substance is the comments of the B.C. Report - Volume 1, Page 304; the Nova Scotia Report - Volume 1, Page 51; the Hodgin's Ontario Report and the Restrictive Trade Practices Commission enquiry into Automobile Insurance - Chapter 9, Page 167.

Lack of definiteness in components of the cost factor used ...
absence of accounting records of insurance companies to show

actual cost of conducting business.)

It has always been a mystery to me why Government's, through their insurance departments, have not required insurance companies to detail their costs in the same manner that they are required to do so in the United States. I am inclined to believe from my own experience that notwithstanding the fact that thirty-three percent is one of the lowest administration costs in North America, there is still room for a reduction.

The breakdown of the thirty-three percent is as follows:

Commission	12½%
Premium Tax	2
Unallocated Loss Expense	4
Company Overhead	12
Profit	2½

Commission

Here again, we must examine this in some detail to see where savings can be made. The first area of economy and saving to the public is making it mandatory, and under the present system of insurance, for insureds to pay their premium in advance. With this, I would advocate the issuing of a three-year policy, not subject to cancellation, with premium payable annually. The purpose of this is to avoid undue switching from agent-to-agent and company-to-company with the resultant unnecessary administration cost.

With compulsory payment in advance and three year policies I have estimated that I could reasonably handle automobile business at a reduced commission of a minimum of two and one-half percent. This is, for ten percent instead of twelve and one-half percent. This would be due principally to the elimination of the collection of premiums and the financing of slow-pay accounts.

A further area of saving, both to the agent and to the Company, would be in the elimination of the actual policy and in place thereof a simplified form that spells out the mandatory coverage which the insured has purchased.

Here again, I am attempting to adopt the best out of several systems and on this particular segment, I am following the Saskatchewan Plan where no insurance document of any kind is issued.

A further saving in agent's cost could be in simplifying paper work through elimination of complicated policy forms, endorsements and charge of extra premiums mid-term.

Details of the companies share of administration	- 20.5%
Tax	- 2.0%
Unallocated claims expense - estimate	- 4.0%

Overhead - estimate	- 12.0%
Profit	- 2.5%

Tax

Two percent tax is a Government levy and is a direct cost to the Insured. If the tax revenue is required or justified then let it be an income tax levy or increase licence fees but remove it from the direct cost of the Insured.

Unallocated Claims Expense

This is partly justified where companies use their own staff adjusters but a great deal of the total unallocated claims expense could be reduced by the use of claims centres, but the use of a single adjuster instead of two and eliminating administrative detail work on negotiation of claims settlement.

Overhead - Twelve Percent

Nobody, including the insurance companies, knows the exact cost of handling automobile business. Therefore, it becomes necessary for the Government, through their Insurance Department or through Government controlled rating bureaus, to have insurance companies use modern cost accounting methods to properly allocate expenses. This will not only determine exactly what it costs to handle automobile business but will give an impetus to inefficient companies to lower their overhead.

Profit - Two and One-Half Percent

Referring again to the B.C. Report - Volume 1, Chapter 10, Page 354. They developed a formula for determining an equitable profit based on invested capital and equity. The conclusion from this is that a profit allowance of from one percent to one and one-half percent of premium would be reasonable.

Summary of Possible Savings

(a) Pure Loss Costs - (Estimate only)

Driver Control	3%
Car Control	2%
Elimination of Subrogation and Insured's Legal Fees	2%
Garage Repairs	3%
Allocated Adjustment Expense	<u>1%</u>
	<u>11%</u>

(b) Administration

Agents	3½%
Tax	2%
Unallocated Claims Expense	1%
Company Overhead	4½%
Profit	1%
	<u>12%</u>

Total Reduction in Premium Cost 23%

While these are estimates, I am satisfied that an intelligent examination and improvement in insurance methods, both in loss and expense, could result in this amount of saving or greater. It is necessary for the Government to accept their responsibility for lowering costs in areas they can control and make changes that will permit or force insurance companies and agents to reduce their costs.

Exhibit A.8

Organization of Insurance Agents
Association of Manitoba - Spring 1970

INSURANCE BUREAU OF CANADA

Harley Vannan
Jack Swanson

CANADIAN FEDERATION OF INSURANCE AGENTS

Wilson Rattray

INSURANCE AGENTS ASSOCIATION OF MANITOBA

George Tatlock	Pres.
Bob Rawley	Past Pres.
Dick Cooper	Vice Pres.
Henry Katz	Vice-Pres.
Tom Turpin	Vice Pres.

PUBLIC RELATIONS

Dave Chamberlain
Wilf Chislett
Mel Parsons

POLITICAL COMMITTEE

Tom Grant
Mel Ivey
Dick Cooper
Frank Ernest

EXEC. DIRECTOR

Bill Wilding

Liaison to all Committees

942-4679
943-4709

HEADOTRS STEERING COMMITTEE

Dick Cooper
Chairman

B. Crundwell
J. Harbun
S. Leipsic
M. Spillinger
M. Parsons
M. Wilson
S. Millett

RURAL MANITOBA

All Committee Members

LEGAL AND FINANCE
LEGAL AND FINANCE

S. Leipsic
D. Milne

Advisors, Injunction
Expropriation

CANADIAN UNDERWRITERS ASSOCIATION

Jim McPherson

Advice to Members
Cahvasses - Board Room

AGENCY LIAISON

Jim Harbun
B. Alsop
Don Smith
J. Welch
R. Corrigan
R. Lougheed

Contact and Communication

PUBLICITY

Dick Sillinger
Mel Parsons
Ed LaChance
Gil D'Eschambault
Jerry Wright
John McInnes

Releases - Advt.
Press Radio, T.V.
Labels, Stickers
Billboards,
Rallies, Gimmicks

SPEAKERS

Vannan
Trites
Leipsic
Tatlock
Cooper
Don Smith
Begg

<u>INTERNAL</u>	<u>RESEARCH</u>	<u>PLANNING</u>	<u>COMMUNITY INVOLVEMENT</u>
<p>H. Katz</p> <p>Commissions Defer Customers Advice Rates</p>	<p>Don Muirhead B. Crundwell B. Warkentin</p> <p>Assoc. Bulletins Library - Reference Press Clip - Taxes Allied Info. Mimeo and Photocopy - Camera Weekly Press - Company Bulletins - Night Call</p>	<p>S. Millett Vic Watt Chas Dixon</p> <p>Liaison - All future Program Direction, Feasibility Ideas - Sources of Help - Deal- ing with Companies</p>	<p>Mel Wilson Hugh Johnston Martin Eva Bob McKibben Dan Smith Reesor Bingeman</p> <p>Others - CLUs Chambers Veg. Growers - Printers Driv. Schools - Assoc. Taxpayers and Campers Adjusters - Womens Clubs</p>

Exhibit A.9Script of Radio Commercial Sponsored
by Insurance IndustrySCRIPT TWO

What do you do if your butcher gives you poor quality? You change butchers, right? And if your plumber or T.V. repair man doesn't do his job to your satisfaction, you get another man to do the job. Or if your service station doesn't take care of your car properly, you switch service stations. But what will you do if the Manitoba Government takes over car insurance and gives you incomplete, expensive automobile insurance which doesn't meet your needs? Can you change anything then? NO!! You'll like it or lump it, because the government doesn't intend to give you any freedom of choice!! Now you have a choice of not only whom you deal with, but a wide choice of car insurance suited to your needs and a choice of price!! Don't lose your freedom of choice in buying car insurance!! Don't accept second best!! Join the fight for freedom of choice!! This message has been brought to you by The Insurance Agents Association of Manitoba.

Exhibit A.10Memorandum Describing Activities of
Insurance Bureau of Canada
during May and June 1970

TO: Mr. Ron Walker, Public Relations Chairman

FROM: David Chamberlain

Manitoba Public Relations Activities

The following is a brief run-down of technical assistance provided by PIR and Wilfred Chislett and Associates to Manitoba company people and agents during May and June 1970:

11. An Insurance Information Service was established in Winnipeg as a co-ordinated centre of all activities in the PR and Advertising program. The centre was manned by Eugene O'Keefe and Miss Cathy Riggall, Manitoba vice-president of the Canada Council of Young Drivers. In addition, Miss Jo Coughlin, Dick Dolman and James O'Hagan, all of PIR assisted in the operations at various times on specific assignments.
2. Press releases (see attached selections). Numerous pertinent press releases were sent out from the information centre. These can be broken down into the following categories:
 - (a) Statements on behalf of H.B. Vannan, I.B.C. Western Advisory Committee Chairman.
 - (b) Rebuttals of NDP propaganda, in the form of pamphlets and speeches.
 - (c) Press releases on behalf of the Insurance Agents' Association of Manitoba. These were mainly handled by Wilf Chislett.
 - (d) Press releases on speeches made by industry personnel. In each such case, we attempted to emphasize one specific argument, that had not already received press comment.
3. Background information. Three background information pieces were prepared with help from industry experts (see attached).
 - (a) Background on Weir plan, as presented by the Leader of the Opposition in the Legislature. This was for company and agency personnel, so that they would be aware of all the implications of the plan. The agents' association reproduced the backgrounder in a special bulletin for all member and non-member agents.

- (b) Backgrounder on comparison of present coverage with Weir plan. This was used by Mr. Vannan at a press conference where he outlined the industry position on the plan.
 - (c) Backgrounder on Public Utilities Committee and hearings involved with Bill 56. This was sent to all interested parties who might make representation to the committee.
4. Press conferences. Two press conferences were arranged for Mr. Vannan; one on the Weir plan and one on the industry's proposal to the Saskatchewan government.
 5. Radio and newspaper advertising. Radio and print ads were prepared for the agents' association and placed in all dailies, major weeklies, and all radio stations in the province.
 6. Speech kit for agents. A speech kit containing two speeches and backgrounds information on Saskatchewan was prepared for the agents' association. A speaking committee of twelve agents has used this on numerous occasions in the past month and a half.
 7. Miss Coughlin and Miss Riggall assisted the leaders of the Women's Committee for Freedom of Choice. The committee held one rally, which 500 people attended, organized a petition on the Manitoba government and will be carrying out further action as required.
 8. A special committee of the Winnipeg Chamber of Commerce was established to concern itself with Bill 56. Technical assistance and insurance background was provided to the Committee which issued the attached memorandum to members.
 9. Bumper stickers. A bumper sticker saying "Help STOP Bill 56" was designed for the agents and company employees.
 10. A leaflet to be used at the Manitoba exhibition was designed under the direction of the agents' association.
 11. Television. The film "Oh, Oh!" was distributed to television stations in Manitoba. In addition, Mr. Vannan appeared on CJAY talking about cosmetic damage. The film from the Insurance Institute on Highway Safety was shown during the hour-long program.
 12. Legislative information. The Insurance Information Service has operated in this area in two specific functions:
 - (a) Finding the appropriate local insurance technician to answer questions raised by members of the legislature.
 - (b) Keeping industry people informed on schedules and activities of the legislature and legislative committees.

Exhibit A.11Guide for Preparation of Briefs
by Manitoba Insurance Agents

Briefs to the Utilities Committee Protesting
Bill 56 Government Auto Insurance

URGENTURGENT

If the government is successful in steering BILL 56 through second reading the Public Utilities Committee will have open hearings and accept Briefs. This is the opportunity for every Agency, every Agent, every employee, and every interested Company, Association and individual in the Province of Manitoba to submit a Brief outlining the effect that BILL 56 will have upon the Province, upon their Company, Association, or Agency and, as individuals.

It is most important that you prepare a Brief and HELP OTHERS PREPARE THEIRS.

The following points are submitted for your assistance in preparing your Brief in addition to your own ideas:

- (a) Loss of income.
- (b) Loss of business value.
- (c) Immediate and future effect upon your family.
- (d) Reduction of estate values for inheritance purposes.
- (e) Effect upon pension programs.
- (f) Effect upon Life Insurance programs.
- (g) Effect upon your ability to repay bank loans originated for the purchase of your business.
- (h) Effect upon your ability to repay mortgages originated for the purchase of your business.
- (i) Effect upon your ability to seek another form of suitable employment due to age, physical disabilities, etc.
- (j) Effect upon your suppliers and other local businessmen due to a reduction in purchasing power.
- (k) Reduction of charitable donations.
- (l) Reduction of tax contributions Federal and Provincial - Business Tax, Income Tax, etc.
- (m) The availability of additional business in other insurance lines with which to replace your loss of income due to losing your auto insurance business.

Instructions

1. Briefs are preferred in written forms, but oral ones will be heard.
2. Large briefs - Companies, Associations, Agencies - should be prepared in sufficient quantity to provide one (1) copy to each member of the Committee. Thirty (30) copies has been suggested by the Chairman of this Committee.

3. Individual Briefs need not be prepared in such number unless so desired.
4. When hearings of the Public Utilities Committee are called OUT OF WINNIPEG SUBMISSIONS generally are given the courtesy of being heard first.
5. Scheduling of appointments for hearing does not appear possible.
6. In the event that circumstances do not permit your personal appearance with your Brief DO the following:
 - (a) MAIL your Brief in the required number of copies to the Clerk of the House, Parliament Buildings, Winnipeg, Manitoba, with the request to hold as CONFIDENTIAL UNTIL CALLED FOR BY YOUR DELEGATED REPRESENTATIVE.
 - (b) MAIL one copy of your Brief to your delegated representative with your instructions for him to act on your behalf.
(Please note that your Association is most willing to act on your behalf if so requested.)
7. Representation by and/or with Counsel or any other person is authorized.

Important ...

Because of the Motion for Speed Up now before the House time may be of the essence; please act as follows:

- (a) PREPARE your Brief NOW.
- (b) PLAN on appearing personally if at all possible.
- (c) HELP others prepare their Briefs.
- (d) WATCH your newspapers for news stories on the hearings - NOT PAID ADVERTISEMENTS.
- (e) IF you can't appear in person act on PARAGRAPH 6 above NOW.

DO IT NOW - DON'T DELAY

W.J. Wilding, Executive Director

Exhibit A.12Letter from George Tatlock to
Premier Schreyer, July 10, 1970

308-310 Donald Street,
Winnipeg 2, Manitoba

July 10, 1970

Hon. Edward Schreyer
Premier
Province of Manitoba
Winnipeg, Manitoba

Dear Mr. Schreyer:

May we at this time accept your offer made on the steps of the Legislative Building on April 29th, 1970, to discuss Bill 56 and its effects on insurance agents. We suggest the date of July 20th, at an hour acceptable to yourself. If this should not be convenient, then we would be available at any alternative you propose.

We had hoped to have received a reply to the recommendations contained in our letter of April 29th, and trust this will be forthcoming shortly.

Yours truly,

INSURANCE AGENTS' ASSOCIATION
OF MANITOBA

Per:

President

CRT/js

Exhibit A.13Letter from Premier Schreyer to
George Tatlock, July 14, 1970

July 14, 1970

Mr. G.R. Tatlock, President
The Insurance Agents' Association
of Manitoba
308-310 Donald Street
Winnipeg 2, Manitoba

Dear Mr. Tatlock:

This is to acknowledge your letter of July 10th in which you suggest a meeting at an appropriate early date to discuss the effects of Bill 56. I suggest that a meeting take place on July 21st at 4:00 P.M. and express the hope that this will be satisfactory.

You refer also to your earlier letter of April 29th and indicate that you expect a response to the subject matter of that letter. I received the letter of course directly by hand on the 29th of April and did make reference to it during the course of my remarks. In any case I will set forth my comments relative to the four questions posed therein.

Firstly, be advised that the committee that was charged with the responsibility of studying existing commission reports and other material was asked to report on the feasibility of alternatives as well as on that of a publicly operated auto insurance plan. If you regard the make-up of the committee as having been unusual, I would be pleased to present to you a listing of numerous studies made by the federal government bearing on many different subjects, which were conducted internally by various government departments and ministerial committees. The establishment of the committee here to inquire into auto insurance is therefore grounded on common practice.

You also ask about the many individual briefs that have been presented to the committee. There have indeed been many communications received both pro and con in this connection, and many of them coming to my office have been in the nature of brief letters stating support for or opposition to the concept of a publicly operated auto insurance program.

As regards your contention that I have stated that the government would compete with private insurance companies, I must point out to you in no uncertain terms that I, at no time, indicated that a publicly operated plan would be established alongside the many private insurance companies now in operation. I did indicate that, if all things were equal, I would prefer to have such an arrangement. Upon

evidence brought to my attention that this would not be as practical and would not result in any significant cost savings, I stated clearly and repeatedly that the program would have to be established on essentially the same basis as that of Saskatchewan.

Relative to the fourth question, I should like to say that we have studied other major programs that have been introduced elsewhere in Canada over the years and many of them, if not all of them, have resulted in some temporary dislocation but were found on balance to be working in the interest of the large majority of the general public. For example, I have made a specific study of the U.S.-Canada Auto Agreement and find that although dislocation was caused when that program was entered into between the federal governments of Canada and the United States, some program of transitional assistance was worked out by the federal government, and this is what I indicated would be done in this connection and in connection with the problem you refer to as well.

You finally make reference to the need for establishing a committee composed of unbiased members, and in reply to that I say merely that it would be difficult, if not impossible, to find such people. I am sure there is bias in plenty on the part of those who oppose the concept of a publicly operated auto insurance program as well. All I am interested in achieving in this connection is a program that will, after some actual experience with it, receive the same kind of acceptance that it has for many years in our neighbouring province. This has been the case both on the part of the citizens who obtain insurance under that program, and on the part of successive governments there, past and present.

Yours sincerely,

Edward Schreyer

Exhibit A.14

Letter from George Tatlock to
Premier Schreyer, July 21, 1970

July 21, 1970

The Hon. Edward Schreyer
Premier
Province of Manitoba
Legislative Building
Winnipeg, Manitoba

Dear Mr. Schreyer:

This will confirm our telephone conversation with your Secretary on July 17th, advising that your suggested meeting date of July 21st would regretfully have to be declined. Nonetheless, we express our appreciation for your consideration.

Actually, we had hoped to discuss fully the effects of Bill 56, not only from the viewpoint of our own particular interests but also for the benefit of the citizens of Manitoba. We are therefore disappointed in the text of your letter, which in our interpretation, precludes the possibility of any productive conversation. We would appear to have no alternative other than to forego the appointment proposed in your letter of July 14th.

Yours truly,

INSURANCE AGENTS' ASSOCIATION
OF MANITOBA

G.R. Tatlock
President

c.c. Mr. F.K. Eady
Special Assistant
to the Premier

maximum would be specified). But he must forward payment in full to the government as soon as he issues the plate.

4. If a customer defaults on payment, the agent must mail him the cancellation notice, with a copy to the government. The agent is responsible until such notice is mailed.
5. The agent would be the first point of contact for all claims for his customer. In rural areas especially, he would help to schedule the work of the travelling adjuster for his area.

The following fee schedule is proposed for PAB licences to be issued to those who are not in the business:

- (a) For the first 1,000 basic policies and plates -- five dollars each (four dollars and twenty-five cents from the insurance corporation; and seventy-five cents from the Motor Vehicles Branch for the plate);
- (b) For all policies over 1,000 -- two dollars each (one dollar and twenty-five cents from the insurance corporation and seventy-five cents from the Motor Vehicles Branch.)

A PAB licence will be issued to individuals only. For example, if John Doe owns Acme Agency, John Doe gets the licence. It cannot be sold as part of Acme Agency when Doe retires, leaves the province, or leaves his present location if he is not presently licenced to transact business anywhere in the province.

Furthermore the PAB licence is only renewable if an agent maintains his annual business over the twenty-five percent auto mark. If he falls below it, he loses his PAB licence.

The object is to build a group of independent professionals for auto insurance, based on those who are now in the business, while eliminating the part-timers.

The Superintendent of Insurance will have the authority to issue new licences if he feels an area is inadequately served, or if the twenty-five percent criterion will adversely affect service in a low-population area. The Superintendent of Insurance would naturally work closely with the Motor Vehicles Branch in making such a determination.

Such new licences would carry no obligation to people already in the business. They would, therefore, be issued at a flat two dollar per policy rate.

In addition, the basic coverage and plates, and optional supplementary coverage would always be available from the Motor Vehicles Branch for anyone who does not want to deal with an agent.

While this alters the ability of an existing agent to sell his

"asset," it guarantees that no existing agent who writes more than twenty-five percent auto business will suffer. One can rationalize this further by pointing out that from their testimony to Public Utilities Committee, one would think the agents are in business to provide service rather than to realize a capital gain.

This proposal will allow us to let the agents prove that they are indeed providing a service. If it turns out that they are correct, we will maintain them in the plan. If it turns out that they are wrong, we will allow natural attrition to eliminate them, by simply not issuing any new PAB licences as the old ones are retired. Either way, no existing auto insurance agent will suffer.

The cost of this proposal to the plan will drop every year. As agents retire or leave, their customers will be re-distributed to other agents or to the Motor Vehicles Branch. By having a ceiling of 1,000 on the five dollar rate, we ensure that those floating customers will come in at the two dollar rate, instead of the five dollar rate. This process will accelerate as time passes.

From the agent's point of view, it will still be worth his while to attract extra customers at the two dollar rate, because he will then have a chance to sell them fire and other insurance, etc.

While this proposal will obviously add some additional cost to the public plan, I believe that:

- (a) This cost will be reasonable and,
- (b) That the advantages make the cost worthwhile.

The political advantages in the short term are obvious. In the long term, the chief advantage comes from ensuring that the transition from private to public plans will be a smooth one. One need give only the most cursory examination to the enormous task of setting up the new corporation, to realize that an abrupt shift in systems will result in total chaos for the motoring public in the first year of operation.

By leaving qualified agents in the plan, the transition can be effected more smoothly and any criticisms of the transition period will have to be borne by the agents as well as the government.

The fact that the agent will perform certain functions for a customer should also reduce the cost of at least some staff and administration for the insurance corporation. Also, by making time-payment plans available through the agents, and making them responsible for such plans, we are eliminating a major administration headache that the corporation might have to face in the initial stages.

Indeed, it is possible that the cost of the above proposal could well be less over the first few years, than if the agents are cut out altogether from the start.

A full-blown insurance corporation does not just happen overnight. Many of the best features of the Saskatchewan plan (like the claims centres) were not brought in until some years after it started. To suggest we can do it all instantly, and change abruptly from one system to another at the same time, is just not realistic.

Finally, the above proposal will also radically alter and reduce the requirements for transitional assistance benefits. Only two categories might qualify for such benefits:

1. Employees of companies, agencies, adjusting firms, etc., who are laid off. (The "eighty-five dollars a week" formula could still apply for these people.)
2. Agents who are not employees, and who now earn less than twenty-five percent of their income from auto insurance.

It should not be necessary to compensate anyone earning more than twenty-five percent from auto insurance because the above proposal will, in effect, replace virtually his entire income.

Ken Goldstein

Exhibit A.16Memorandum to Insurance Agents from George
Tatlock, June 14, 1971 Regarding Opting Out of
the Automobile Insurance Scheme

June 14, 1971

Insurance Agent Association of
Manitoba
308-310 Donald Street
Winnipeg 2, Manitoba

Dear Sirs:

Re: Automobile Insurance

It would appear from the M.P.I.C. letter of June 7, 1971 that the Government is prepared to recognize only a bare minimum as pertains, first, in regard to remuneration to those agents who wish to opt out of the business, and secondly in the compensation for those desirous of servicing the compulsory coverage. We know that the former is ridiculous as compared to the pre June 1969 agency selling price of an agency. The value of the second depends on what service one wants to give for the seven percent. The offering of reluctant or token assistance which presumably one could only provide for the amount of remuneration could reflect adversely on ourselves in relation to the other business we handle for our clients.

It therefore seems to me that we must take a determined stand and make the decision known to the Government immediately, that we are either going to do a conscientious and professional job for the public and get properly paid for it, or leave it alone. If we are going to do the proper job then we must be reasonably reimbursed for our time, namely, a commission of ten percent for the first sixteen months and eight percent thereafter subject to a minimum of five dollars per vehicle. This minimum would be very important in the rural territory -- (excluding north of fifty-three). It is likewise most important to have a tenure for handling the business -- a guarantee of five to ten years should be part of our agreement.

The sop of accepting seven percent the first year then six percent or five percent the second and doing nothing to honourably justify its acceptance is going to degrade our profession. It would then be even easier (and quite justifiable) for the Government to phase us out two or three years hence. Furthermore, we would have worked ourselves into a position of degradation should the Government later decide to go into other lines of insurance.

What the Government is offering in the way of a servicing commission or "transitional assistance" for those who leave the

business, is the sole compensation they are paying for taking over our business.

I feel therefore that we must take a firm stand now and be a definite and responsible force in Autopac or honourably retire from the auto business. If the latter is chosen, then we should demand compensation based on a notification of the selling price of an agency prior to June 1969. If such compensation should be staged for which I am sure we would get even greater public support.

Yours very truly,

GEO. R. TATLOCK

GRT/mo

APPENDIX B
SUMMARY OF POINT OF
ACTION BY AUTOMOBILE
INSURANCE INDUSTRY MANAGERS

Exhibit B.1Points of Action by the Insurance
Bureau of Canada*Stage

1. Societal Need
2. Recognition
3. Articulation
 - Staged out of election campaign
 - Accident benefits feature introduced (bureaucrats)
4. Decision to Proceed with Legislation
 - Met with I.A.A.M. (agents)
 - Sought meeting with government (politicians)
 - Met with Schreyer and Pawley (politicians)
 - Private Vannan/Pawley meetings (politicians)
 - Letter suggesting people to work with committee (politicians)
 - Critical letter to Pawley re: committee (politicians)
5. Determination of Nature of Regulations
 - November 12th letter to Schreyer (politicians)
 - December 5th submission to committee (political - bureaucrats)
 - Monitored all committee meetings (politicians)
 - Speeches to service organizations, etc. (public - politicians)
 - Met with representatives of I.A.A.M. (agents)
 - Distribution of pamphlets (public - politicians)
 - Comments on Throne speech (public - politicians)
 - Meeting with Pawley (politicians)
6. Drafting of Legislation

*Group to which action was directed is indicated in brackets.

7. Legislative Consideration

1st reading

- Rally: (public - politicians)

2nd reading

- Working with conservatives to brief them and develop an alternative (politicians)
- Financial assistance to and meeting with I.A.A.M. (agents)
- Providing information to press (press - public - politicians)
- Radio and T.V. shows, pamphlets, speeches, newspaper items (public - politician)
- Press conferences (public - politicians)
- Radio and newspaper advertising (public - politicians)
- Speakers kit (agents)
- Bumper stickers (public - politicians)
- Legislative information services
 - technical data (politicians)
 - schedules, etc. (agents)

Committee

- (continuation of all of the activities in 2nd reading), and,
- Presentation to Public Utilities Committee on June 27, 1970 (politicians)
- Convincing agents association to not meet with the government (agents)

Committee Report and Amendments

- (continuation as above in 2nd reading)
- Letter from H.B. Vannan to all insurance people on issues and alternatives on August 10, 1970 (agents, insurance companies)
- Announcement of a legal review of the constitutionality of the bill (legal)

8. Formulation of Regulations

- Speeches by H.B. Vannan (public and politicians outside Manitoba)
- Suggested list of names for inclusion on advisory committee (politicians)
- Comments by H.B. Vannan on government announcements e.g., appointment of Board of Directors

- Schreyer's speeches
- Advisory committee appointments, etc. (Manitoba and non-Manitoba publics)
- Examining copies of proposed government regulations leaked to them and commenting on them (bureaucrats)

Exhibit B.2Points of Action by the Insurance
Agents Association of Manitoba*Stage

1. Societal Need
2. Recognition
3. Articulation
 - Calls for stricter enforcement of traffic regulations (politician)
4. Decision to Proceed with Legislation
 - Met with I.B.C. representatives (companies)
 - Met with Schreyer and Pawley (politicians)
 - Annual meeting with Nagel (agents - public - politicians)
5. Determination of Nature of Legislation
 - Gordon Root meets with H. Pawley
 - Mass attendance at first meeting of Automobile Insurance Committee (politicians)
 - Brief to committee (politicians - bureaucrats)
 - Urge members to get clients to write committee (public - politician)
 - George Tatlock maintained good relations with Howard Pawley (politicians)
 - Initiated "ground swell of information" approach (public - politicians)
6. Drafting of Legislation
7. Legislative Consideration
 - 1st reading
 - Rally at Centennial Concert Hall (public - politicians)
 - Rally at Legislative Building (public - politicians)

*Group to which action was directed is indicated in brackets.

2nd reading

- Established "Steering Committee" (agents)
- Hired Wilding (agents)
- Worked with and received financial assistance from I.B.C. (companies)
- Open line radio programs (public - politicians)
- Public debates with government representatives (public - politicians)
- Meetings of agents with local MLA's (politicians)
- Speeches (public - politicians)
- Talking to people, such as clients, suppliers, car dealers, etc. (public - politicians)
- Encouraged people to write their MLA's (public - politicians)
- Advertising - radio and T.V. and billboards, stickers (public - politicians)
- Obtaining legal opinion on constitutionality of legislation (legal)
- Constant attendance in legislature (politicians)

Committee

- Meetings of individual agents with Desjardins (politicians)
- Requested a meeting with Premier (politicians)
- Cancelled meeting with Premier
- Encouraged members to present briefs and provided guidelines (politicians)
- Presented a brief to committee (politicians)
- Continuation of activities as in second reading

Committee Report and Amendments

- Continuation of activities as in second reading
- Some relaxation after Desjardins' speech

8. Formulation of Regulations

- Supplying information to interested parties (bureaucrats)
- Attempting and getting I.B.C. to sponsor more media advertising (companies)
- Sent case material and NDP cabinet ministers' (politicians)

- Suggested representatives for
Advisory Committee (politicians)
- G. Tatlock withdrew from
Advisory Committee
(public - politicians)
- Advocated agents dropping out
of the plan (politicians -
public)

Exhibit B.3Points of Action by Individual Agents*

<u>Stages</u>	<u>Jim Harbun</u>	<u>Sylvan Leipsic</u>
1. Societal Need		
2. Recognition of Need		
3. Articulation of Demand	- Assessed the political situation as not threatening	
4. Decision to Proceed	- Attended July meeting of Association (agents)	- Personal contact with NDP cabinet ministers (political)
5. Determination of Nature of Legislation	- Presented a written brief to the Automobile Insurance Committee (politicians - bureaucrats)	- Discussed the proposed association brief (agents)
		- Presented own brief to Automobile Insurance Committee (politicians - bureaucrats)
6. Drafting of Legislation		
7. Legislative Consideration		
1st reading	- Met Walter Weir and asked for his support (politicians)	- Centennial Concert Hall (public - politicians)
	- Participated in Rally (public - politicians)	- Legislative Building Rally (public - politicians)

*Group to which action was directed is indicated in brackets.

2nd reading

- Member of I.A.A.M. auto steering committee (agents)

- Member of I.A.A.M. auto steering committee finance (agents)

Committee

- Presentation to committee (politicians)

- Moved that I.A.A.M. ask for meeting with Schreyer (political)

- Met Desjardins after I.A.A.M. reversed decision on meeting Schreyer (politicians)

- Met F.D. Eady - Executive Assistant to Premier (Bureaucrat)

- Met with Desjardins and Premier (political)

Regulations

- Become agency manager of the Manitoba Public Insurance Corporation (bureaucrats)

- Appointed to Board of Directors of MPIC (bureaucrats)

APPENDIX C
REFERENCE MATERIAL FOR
DRUG SUBSTITUTION LEGISLATION
CASE

Exhibit C.1Pharmaceutical Manufacturers' Association of
Canada's Brief to the House of Commons Special
Committee on Drug Costs and Prices, June 16, 1966

DRUGS COSTS AND PRICES

The Question of "Generic Equivalency"

There are two ways of designating a pharmaceutical chemical: by its lengthy chemical name; and by what has come to be known as the proper, non-proprietary, common or generic name. This is derived from the chemical name. A brand name, however, fulfills a different function. It establishes the manufacturer's responsibility for a particular drug product.

An editorial in the Journal of the American Medical Association of November 9, 1964 concluded its comments on "Drug Names" with the following advice:

... The physician who prescribes meprobamate as such has no way of knowing that his patient will receive the drug in a form of highest quality and expected potency. Careful prescription writers provide the necessary assurance in one of three ways: by writing the non-proprietary name plus the name of a manufacturer known to be reliable; by writing the non-proprietary name plus the desired brand name. The third method has the modest advantage of reducing the likelihood that the pharmacist will make a mistake in filling the prescription.

When a physician uses a brand name or a manufacturer's name to designate the source of supply, he is fulfilling a part of his professional obligation to his patient. Having decided that medication is required, he should assume the responsibility for selecting a manufacturer who will supply the drug in a therapeutically effective form at the lowest possible cost to the patient ...

The members of our Association and most other Canadian companies market most of their products under brand names. But there are also a smaller number of companies which market products according to the generic name of the active ingredient.

Both the Restrictive Trade Practices Commission and the Hall Commission called for wider generic prescribing by Canadian doctors in order to reduce the cost of drugs. Certain questions are raised here.

Since about half of the prescription products available are mixtures and only about a quarter of them have generic equivalents, how is the physician to prescribe these generically? And can the physician be confident of the quality of drugs prescribed generically?

Dr. Showalter of the Department of Industry testified before the Special Committee of the Commons that the government has had its troubles with products bought by price alone. Said he: "The practice of competitive bidding on price seems to have resulted in obtaining supplies mainly from the least competent or possibly the least scrupulous suppliers." This was the origin of the decision to develop CGSB standards for companies wishing to tender for government business, as well as for the Committee's recommendation that all manufacturers and distributors be registered so that they can be inspected by the FDD.

In April 1962 the Alberta government passed a bill that enabled pharmacists to substitute generic-name equivalents for brand-name product unless specifically ordered not to by the physician. This legislation has had little or no impact. According to "Drug News Weekly" of February 15, 1964, Donald Cameron, Registrar of the Alberta Pharmaceutical Association, has stated that about eighty percent of the doctors in the province prescribe by brand name. Said he: "Doctors are wary of prescribing generics because there have been too many reports of cases where cheaper drugs were used without success or with disappointing results, thus eventually increasing the overall cost."

The problem of generic drugs is a problem of quality, and it should be recognized that government inspection can never guarantee the quality of all drugs sold in Canada. According to Dr. C.A. Morrell, then head of the FDD, in his appearance before the Special Committee of the Commons:

... I am loath to have people say that a drug is guaranteed by the Food and Drug Directorate. I do not see we can guarantee it. There are many subtleties, and we have not the facilities to detect differences ... You cannot put 'government approved' on a drug.

A major weakness in the Hall Commission approach to prescription drug services is its failure to appreciate the inevitable limitations on government action. This is most evident in the section of the Hall Commission report entitled "Quality of Drugs" (pp. 336-370).

It is our belief that open competition between qualified suppliers is the best way to serve the interests of the Canadian people where drugs or any other products are concerned. But such competition is not encouraged by the destruction of long-accepted methods of protecting the legitimate rights of the manufacturing companies -- as represented by the companies' brand names.

The requirements for sound drug purchasing were described by Dr. Morrell, when he headed the FDD, in a press statement on the "Globe and Mail." August 18, 1960:

When it comes to buying top-quality drugs, the things to check are the ability, facilities, personnel and conscience of the drug

manufacturer. Neither a brand name nor a drug's generic name is the sole reliable guide to quality. The real point is who makes the drug and how it's made -- the control system that ensures careful and scientific testing for potency and reliability.

There is finally the broad question of whether any two prescription drug products, even though containing the same active ingredient, can be considered truly equivalent. Long experience, backed by considerable scientific evidence, leads our companies to conclude that this is rarely the case. Said Dean F.N. Hughes of the School of the Pharmacy of the University of Toronto before the Hall Commission:

We believe the principle of requiring practitioners to prescribe medicine only by chemical or generic name to be entirely wrong. This presupposes that any given dosage form containing the same quantities of a drug will have the same clinical effect. It has been clearly shown that this does not necessarily follow.

The many factors of drug formulation (twenty-four of them) which can affect therapeutic efficiency were reviewed succinctly in an article by Dr. Max S. Sadove and others which appeared in the February issue of "American Professional Pharmacist."

The practising physician should certainly be informed about the cost of therapy as he is about its effectiveness, and we support the Hall Commission recommendation for more extensive efforts in this area. However, maintenance of the physician's freedom to prescribe the drug of his choice is of overriding importance. (House of Commons, Special Committee on Drug Costs and Prices, Minutes of Proceedings and Evidence, No. 4, June 16, 1966, p. 112).

Exhibit C.2Address by Don Harper, PMAC Director of
Public Relations to an Industry Meeting

"With all the present concern in Canada about substitution, compulsory licensing, government control of purchasing and distribution government corporations to make drugs in competition with the industry and so on. Many believe that Canada is rapidly leading the way in anti-industry programmes.

Frankly it is hard to believe that our industry once enjoyed years of relatively glorious obscurity even while making available revolutionary new compounds for the physician to use.

You might well ask what ended those earlier days in Canada, what ended it abruptly was an American - Senator Estes Kefauver.

The Canadian Press, radio and TV could not have been more delighted with the veritable feast of lurid headlines that emerged from Kefauver's investigations. Canadians may never forget that big black banner headline in the Toronto Star - 'Drug profits 7,000 percent.'

Suddenly our years of relative anonymity were over and we in Canada have been in the glare of publicity for over a dozen years since.

Politicians in Canada quickly awoke to a stark political truth -- that voters are also consumers and that inevitably all consumer voters get sick some time or other -- and when they do, they must buy medicine.

People subconsciously feel that good health is their right by virtue of merely being alive in this twentieth century -- and they resent illness and anything associated with it -- including the cost of the drugs that make them better. We make a 'negative' product that no one really wants to have to buy.

What began then was what we refer to as 'The exploitation of the pharmaceutical industry by those with politically-yeasted interests.'

The barrage of U.S. publicity set the pulses racing of opportunities in Canada -- and thus began a deluge of Canadian investigations into the affairs of the drug industry: The preparation of the so-called 'Green Book' which led to the Restrictive Trade Practices Commission hearing and report, an Ontario Legislature Committee study and report, the Hall Royal Commission hearings and report, legalization of substitution in the province of Alberta, Quebec's Castonguay Commission investigation and reports, not one but two federal parliamentary studies -- The Harley Reports - a Newfoundland study of drug costs and prices, the B.C. welfare drug list, the Brien report, the Boyd report, the Hilliard report and numerous others - all with attendant publicity that convinced the public that drug

manufacturers were a scurrilous bunch who profit handsomely by exploiting the sick and the poor!

It was never noticed by the press or the public that there was an odd similarity to the criticisms levelled at the industry in all these 'exposes.' Each one quoted from the previous ones as their undisputed and unbiased factual authority. In this way they all trace back to that original Green Book which had Senator Kefauver's activities as its foundation.

Always ignored was a surprisingly candid admission in that Green Book that conceded that 'many of their conclusions were based solely on opinions' -- not on facts!

Whether Canadians like it or not, geography, language and culture dictate what transpires in the USA will infect Canada as well -- it's only the length of the incubation period that's open to question. Once so triggered, Canadian actions might go beyond U.S. actions.

Can you blame the public for finally succumbing to what their press and politicians kept telling them? Furthermore, what surprises many people is that the supposedly objective public service played an active and deliberate political role as publicists and propagandists in order to prepare public opinion for a policy change. They adopted public relations techniques to win public support. This fact was only made public recently in a new political science text published in Canada.

I have not been reviewing the past in order to cry over spilled milk, but to put historical perspective on recent federal and provincial government actions.

The federal government's legislative response to the clamour was a five-point programme to lower drug prices; (1) they removed the twelve percent federal sales tax on drugs at the manufacturers level; (2) removed tariff application on drug imports; (3) began to subsidize small Canadian owned so-called generic manufacturers who were such bad financial risks they could not get money from normal sources (PIDA loans); (4) and a bill to amend the Patent, Trademark, Copyright and Food and Drugs Acts in such a way as to force compulsory licensing of patented pharmaceutical processes at royalties best described as 'a pittance.'

Well, what is happening in Canada's ten provinces?

Alberta has had substitution legalized for ten years but the pharmacists largely hesitated to exercise their prerogative in the past. That's changing these days since pharmacists are unhappy with manufacturers. They have unsuccessfully attempted group tendering based on annual provincial consumption figures but still buying in sixteen's and twenty-four's every week as before and when this naive attempt failed to yield them any better prices, they decided to punish

unco-operative manufacturers by substituting whenever possible. They are also throwing in their lot with the provincial department of Health to develop compulsory provincial hospital and retail central purchasing on a tender basis.

Saskatchewan legalized substitution in a whirlwind manoeuvre on the last day of the session last year before the election that saw the New Democratic (Socialist) Party storm into power. We cannot be too hopeful about our prospects with the NDP who a few years ago, ran a full-page ad in Saskatchewan newspapers during an election campaign and it was entitled 'How to make a \$ million - go into drug manufacturing.'

During the last year's election campaign, the NDP made a lot of promises about health matters. After they won they appointed a 'thrust' group to oversee the implementation of their various election health promises. The 'thrust' appointed a 'probe' Committee to look specifically into government central purchasing and distribution of drugs, a provincial formulary and so on.

The 'probe' has not publicly reported yet but it is a foregone conclusion that they are committed to central purchasing -- despite a national purchasing symposium held in Saskatchewan this year which showed that savings on government purchasing and distribution can be a myth and an illusion - not the millions they envisage. Their programme may well cost more than the total drug bill of Saskatchewan - such are the ways of politics.

At the urging of organized pharmacy in British Columbia, the government legalized substitution or product selection earlier this year. This followed several abortive attempts in previous years.

The step occurred despite a symposium held at the University during which substitution of generic equivalents was characterized as '... logically unsound, scientifically untenable and ethically inadmissible.'

Manitoba also has a socialist government which appointed a committee under a Dr. Klass to study substitution, a formulary, and central purchasing and distribution of all drugs for retailers and hospitals among other things.

Their report spent the first fifty pages criticizing brand and trade names as the cause of high prices and then ironically they proceeded to coin two 'brand' names for their proposed programmes - Mancore for the forty odd centrally purchased and distributed drugs and Manform for their provincial formulary.

They passed a compulsory substitution bill but do not plan to proclaim it in to effect until early in 1973 by which time they hope to have their formulary ready and the central purchasing mechanism established. The only way the doctor could avoid substitution then is to write "No Substitution" in his own handwriting - no rubber stamps or

preprinting. And the government has conveniently tried to legislate no substitution liability for the prescriber, dispenser or the government.

The Ministers of Health of the two neighbouring socialist provinces, Manitoba and Saskatchewan, have publicly stated that they will try to implement a joint purchasing scheme to obtain economies of scale, administration and so forth.

And with the new NDP (socialist) government in British Columbia too it seems only a matter of time before all the western provinces throw in their lot together on central purchasing and distribution.

Ontario is blessed with Parcost -- Prescriptions at Reasonable Cost -- a scheme that is being watched or imitated by almost every other province. Using document review, unsophisticated plan 'inspections,' some lab testing, the Ontario Department of Health publishes lists of drug products now deemed to be 'interchangeable.' The bar charts are designed to highlight who the low price producers are and with the recently approved substitution privilege, pharmacists are allowed to select the lowest priced product in their inventory.

Parcost will not go away since the government is not likely to want to lose fact thereby. But has Parcost worked? It was developed 'to drive down the prices of the high priced products' yet if one compares the prices in the current fourth edition with the first one in October 1970, in the multi-manufacturer categories (where competitive price pressure would be expected to be greatest) the price of the highest-priced product has declined in only sixteen percent of the cases, has remained the same in thirty-one percent and has actually increased in fifty-three percent of the cases.

In another study, out of the 241 product categories, only forty-two categories (or seventeen percent) had a range of prices of products enabling a choice to be made from significantly lower-priced suppliers. One might well ask if all the government's effort has been worth it.

You will note that the rationale behind Parcost and substitution is increasingly being questioned in the newspapers. Parcost has been said to put 'us back just about 200 years in health care.'

Quebec passed a bill to provide drugs to the socially-assisted (welfare) people. As a result of sizable bureaucracy has been established to develop an approved drug benefit list. The Minister of Health has said that if the programme works well for welfare cases it would be considered a pilot project for the province-wide implementation of Pharmacare.

He is also considering legalizing substitution and the pharmacists are following the familiar tactic of blaming manufacturers for the 'high cost of drugs.'

The separatist Parti Quebecois, which while a minority is still a noisy factor, has said '... public ownership is the best means to deal with the drug industry.' 'The drug industry is the biggest racket in the world and Canada is its most lucrative customer.'

New Brunswick, Nova Scotia, Prince Edward Island and Newfoundland are Canada's Maritime provinces. While they are traditionally more cautious than other parts of the country, the mood favouring substitution is quickening.

It is likely that they will 'ape' the rest of the country in legalizing substitution but one encouraging note arises in Nova Scotia. They have appointed a Task Force under a Professor Woodfine that may be a rarity among drug investigating committees. So far it appears to be an objective, competent body trying to deal with health care problems without getting into side issues, publicity or mouthing the collected inanities of past investigations.

Since co-operation exists among the Maritime provinces in pharmaceutical matters, whatever emerges from the Nova Scotia Woodfine Task Force will have implications for all the Maritimes.

Now that completes a thumbnail sketch of developments of interest in Canada. An immediate question springs to mind: 'Why doesn't PMAC do something about these things?'

Representations have been made to all those investigating bodies, to the professions of medicine and pharmacy, to federal and provincial governments and opposition members, to federal and provincial civil servants, the press and others -- not once but time after time, using solid, factual, compelling material.

Some might say 'All we have to do is tell our story!' This implies that if we find the right words our troubles go away. We have told our story -- but we have not 'made our case' yet. Because making our case is not a matter of an article, a brief or an advertisement.

We are dedicated to the task. Support your Canadian affiliates, otherwise the political fallout of the past from the US to Canada may well be reversed in the future from Canada back to the USA.

Exhibit C.3Terms of Reference of the Advisory Committee on
Central Drug Purchasing and Distribution

In accordance with the Order-in-Council (Manitoba Evidence Act) of January 27, 1971 -- the Advisory Committee shall be limited to a central drug purchasing and distribution scheme, and shall include:

1. The type of administrative and/or legal organization that should be responsible for central drug purchasing and distribution on a self-sufficient, non-profit basis. This could include a crown corporation, a co-operative enterprise, a joint public/private organization, or other type of organization.
2. Purchasing policies, procedures and practices that should be followed by the proposed agency. This would entail consideration of direct and/or indirect purchase arrangements, tendering, purchase negotiations and/or arbitration, etc.
3. Procedures and practices that should be followed by the proposed agency to ensure the quality and efficacy of drugs purchased and distributed by the agency. For example, whether or not a special testing laboratory should be established as part of the proposed agency or whether such testing services should be contracted for either locally or with another provincial government like Ontario which is already involved in drug testing.
4. The type and number of drugs to be initially and subsequently handled by the proposed agency.
5. The availability of alternative sources of drugs, including generic sources, that should be considered for use by the proposed agency.
6. The requirements of warehousing and distribution to institutional users and retail outlets including identification and evaluation of alternative distribution practices which would be applicable to the proposed central agency operation.
7. Means by which maximum participation in the proposed/central purchasing and distribution scheme can be obtained among hospitals and public agencies involved in the dispensing of drugs in Manitoba.
8. Means by which maximum participation in the proposed central purchasing and distribution scheme can be obtained among retail druggists.
9. The Parcost Program recently introduced in the Province of Ontario; the feasibility of introducing this type of program in similar or revised form as an integral part of the proposed drug agency operations.
10. The impact that introduction of a central drug purchasing and

distribution agency would have upon the existing wholesale distributors located in Manitoba and upon present retail drug practices.

11. The feasibility of dispensing drugs to the public at large from hospital and public health unit pharmacies.
12. Any other matters the Advisory Committee desires to recommend with respect to the operations of a central drug purchasing and distribution scheme.

Exhibit C.4Agencies Represented in Hearings
Before the Klass Committee

Resources
(Agencies, Association, Institutions; and Universities)

Manitoba

College of Physicians and Surgeons of Manitoba
Consumers Association of Canada, Manitoba Branch
Generic Drug Corporation
Manitoba Dental Association
Manitoba Health Services Commission
Manitoba Hospital Association
Manitoba Institute of Management
Manitoba Medical Association
Manitoba Pharmaceutical Association
Red River Drug Rangers
St. Boniface General Hospital
Selkirk Mental Institution
University of Manitoba, Faculty of Medicine
University of Manitoba, Faculty of Pharmacy
Winnipeg Municipal Hospital
Winnipeg General Hospital

Canada

Association Quebecoise des Pharmaciens Proprietaires
Canadian Drug Manufacturers Association
Canadian Labour Congress
Canadian Manufacturers' Association
Canadian Medical Association
Canadian Pharmaceutical Association
Canadian Society of Hospital Pharmacists
Canadian Wholesale Drug Association
College of Family Physicians and Surgeons
Ontario College of Pharmacy
Ontario Hospital Association
Pharmaceutical Manufacturers Association of Canada (PMAC)
Toronto Western Hospital
University of Toronto, Faculty of Pharmacy.

United States

Academy of Pharmaceutical Sciences
Ohio State University, Drug Information Centre
University of Kentucky, Drug Information Centre
University of Michigan, University Hospital

(Government Departments, Boards, Companies, and Corporation)

Manitoba

Department of Health and Social Development
 Department of Consumer, Corporate and Internal Services
 Department of Industry and Commerce
 Department of Attorney-General
 Department of Finance
 Brathwaites Ltd.
 Midwest Pharmaceuticals
 National Drugs Ltd.
 Redboine Drugs Ltd.
 Sabra Pharmaceuticals Ltd.
 Woods, Gordon and Co.

Canada

Quebec Health Insurance Board
 C. E. Frosst and Company
 Ayerst, McKenna and Company
 Hoffman-LaRoche
 Hoechst Pharmaceuticals
 Merck, Sharpe and Dohme
 F.W. Horner Company
 Winley-Morris Company Limited
 Elliott-Marrion Company Limited
 Assurance Vie Desjardins
 Novopharm Limited
 Department of Consumer and Corporate Affairs (National)
 Department of Health and Welfare (National)
 Department of National Revenue
 Department of Health (Province of Ontario)

United States

Department of Defence, Defence Supply Agency, (Philadelphia)

Exhibit C.5Excerpts from "Submission to the Advisory
Committee on Central Drug Purchasing and
Distribution in Manitoba" by Pharmaceutical
Manufacturers Association of Canada, May 1971.

- (a) The effects of central purchasing of drugs.
- (i) the added costs of central purchasing must be offset against any savings
 - (ii) the potential savings from centralized purchasing of drugs have frequently been exaggerated in relation to total health costs
 - (iii) choosing one or a few companies to supply drugs will result in decreased competition and possibly higher long run costs
 - (iv) selection of preferred products would force others off the market
 - (v) removing the physicians choice of medication will be against the interest of patients today and therapeutic advance tomorrow
 - (vi) in England the physician has been left the right to choose products.
 - (vii) the present system of physician's freedom of choice and competition has produced great therapeutic advances in areas where it has been allowed
 - (viii) if a government should change the system they have responsibility to ensure continuation of the benefits of the present system
 - (ix) physicians currently have the freedom to delegate the choice of product to a trusted pharmacist. Physicians and pharmacists jointly need to decide on delegation of choice
 - (x) unless no substitution was specified the physician would have no way of knowing what pharmacist would fill a prescription so he would not know what product would be substituted
 - (xi) actions which would have the effect of discouraging attempts to improve on products would be undesirable
 - (xii) since everyone accepts the right of the patient to the best of care, this care must not be jeopardized by unfortunate choices in purchasing and distribution

(b) The brief asked that the following principles should be agreed upon by all concerned with planning a new system and then programs developed according to the principles.

- (i) it is the right of the physician to prescribe the product of his choice with proof of clinical efficacy being his prime criterion.
- (ii) nothing must be allowed to interfere with the duty of the pharmacist to respect the integrity of the physician's prescription
- (iii) it is a matter between the professions of medicine and pharmacy to what extent the right of product selection is to be delegated
- (iv) purchasing, distribution and payment methods should be of a nature that will not destroy competition and incentive to improve on medications; (e.g., avoid granting of long term contracts of supply; single purchases of supplies for a period longer than six months; obstacles to the addition of new products to any list of eligible products)
- (v) public funds should first be applied to provide social assistance to the needy, recognizing that certain illnesses can cause economic embarrassment
- (vi) the distribution mechanism presently available through the dispensing and handling of drug products by pharmacists should be supported
- (vii) products manufactured and packaged in Canada and thus contributing 'value added' to the Canadian economy and Canadian employees, deserve support
- (viii) firms conducting research in Canada and abroad merit encouragement

(c) A number of comments by people who were involved in group purchasing of drugs were presented.

- (i) a passage quoted from Dr. Summers, editor of the Canadian Journal of Hospital Pharmacy is that 'Group purchasing is no panacea for the problem of pharmacy operating costs. Like all programs of a similar nature, group purchasing has its advantages and its disadvantages, its devotees and detractors'
- (ii) other comments were that in one instance the drug budget was reduced by five percent after a group drug purchasing program was begun and in another the savings had been only 2.14 percent per year

(iii) "Small hospitals usually show the most dramatic savings in terms of percentage, from group purchasing programs. Yet in terms of savings on total hospital operating costs, the actual dollar amount is insignificant. Group purchasing can be an economic mirage."

(iv) Dr. Durward G. Hall, was quoted as providing an insider's view of the U.S. Department of Defense experiences. He is quoted as follows: "Up to that time (some years ago), disproportionate attention was given, I believe, to cost factors alone as contrasted to quality. Experience showed that reliance on price alone in drug procurement plainly does not work in the best interests of the patient."

You may have been told and will no doubt continue to be told that this is not so. Trusting "devotess of a wishful dream will say that all drugs are alike, that tetracycline is tetracycline. That a pill is a pill. That there is such a thing as 'generic equivalence.' The experience of the best minds in medicine is to the contrary."

(v) The U.S. Defense Department requires a company to show evidence of effectiveness of a drug before they will purchase it.

(vi) Colonel Wm. Thurwell, retired Director of Medical Stores in the Department of National Defense was presented to make comments on and answer questions regarding his experience.

(d) Volume Production and Group Purchasing were discussed.

(i) Some hospitals fill shorts of some medications from companies at a higher price than they could if they operated through wholesalers.

(ii) Pharmacies end up with some waste product, which has to be written off, because they purchase in too great a volume.

(iii) Suggest working more closely with individual hospitals to streamline existing procedures.

(iv) Offered to make company personnel available to assist in any way with a hospital purchase survey in Manitoba.

(v) The vital role of the wholesaler in sales to pharmacists cannot be overlooked.

(vi) The size of the Manitoba market at approximately \$15 million for the latest year available doesn't present a great potential for savings. 40

Exhibit C.6Letter from J.D. Harper, PMAC Director of Public
Relations to Manitoba Medical Association after
Publication of Klass Committee Report

Dear Doctor:

The subject of pharmaceutical substitution and product selection has become one of great interest and concern lately. Knowing this, we have prepared and enclosed a commentary referring to specific concerns. We feel it will be useful to you.

In addition, you should know the resolution passed at the Canadian Medical Association Annual Meeting last year: "That the CMA does not approve of substitution of drugs except when authorized by the prescribing physician."

We would like to mention here, in capsule form, a few areas which are dealt with in detailed form, where appropriate, throughout the commentary.

First, under the heading "Scientific," formulation, stability, quality control and good manufacturing practices can affect, and cannot be separated from, clinical effectiveness. Problems of formulation are extremely significant to the final clinical activity of a drug product; significant to the degree that FDD requires a submission when the formulation of any drug product is changed.

This explains why Dr. Denys Cook of FDD summarized the conclusion of the December 1971 Montreal Symposium of the Canadian Association for Research in Toxicology as follows:

Many doctors assume that a tablet or capsule that contains the same amount of a drug must be therapeutically equivalent, but this is not necessarily true for some drugs. The drug delivery system -- whether it is in a tablet, hard capsule, a soft elastic capsule, an enteric-coated tablet and the additives, which add enough bulk so the drug can be put into the tablet form, all affect the absorption rate of the drug.

Different manufacturers may be making the same basic drug, which is chemically pure and meets all FDD requirements, but the delivery system they use may alter the delivery rate and the amount delivered to the desired place in the body.

The result: one company's drug is effective, another's totally ineffective.

As a consequence, the commentary confirms the inappropriateness of terms like "equivalent," "comparable," or "interchangeable" in relation to pharmaceuticals.

Secondly, under the heading of "Legal," the issue of legal responsibility resulting from substitution is examined.

If substitution is legalized and the physicians are not sure whether it is occurring or not, then they cannot anticipate the results produced and may need more follow-up of their patients with the possible outcome being higher cost of treatment.

We feel that pharmacists and physicians will be very seriously concerned about their legal responsibility. Warnings from the Canadian Medical Protective Association confirms that risks can be avoided by routine "no substitution."

The commentary underlines the unnecessary legal doubts raised by premature legalized substitution.

Thirdly, under the heading of "Governmental," there are several corollary areas meriting comment. They deal with the vital nature of therapeutic advance and the sound concept of prepayment for pharmaceuticals, and the limits of governmental action.

Fourthly, under "Ethics," we recall that it has been contrary to medical ethics for the choice of an adjunct to patient care being made by a person associated with a possible profit from that choice.

We would appreciate the opportunity to continue discussions on this subject since the industry feels that legalized substitution or product selection is premature at this time. Should you or your members wish to discuss the implications further, please contact us and we will be happy to make the necessary arrangements to meet with you.

Yours sincerely,

J.D. Harper, B.Sc., Phm., M.B.A.
Director of Public Relations

Exhibit C.7An Act to Amend the Pharmaceutical Act

Bill 12

(Assented to July 11, 1972)

HER MAJESTY, by and with the advice and consent of the Legislative Assembly of Manitoba, enacts as follows:

Sec. 32 rep.

1. Section 32 of The Pharmaceutical Act, being chapter P60 of the Revised Statutes, is repealed.

Sec. 46 added.

2. The Act is further amended by adding thereto, at the end thereof, the following section:

Definition of "interchangeable pharmaceutical product."

- 46(1) In this section "interchangeable pharmaceutical product" means a product containing a drug or drugs in the same amounts of the same active ingredients in the same dosage form as that directed by a prescription.

Substitution of interchangeable product.

- 46(2) Every person who dispenses a prescription shall, unless otherwise directed by the prescriber in his own handwriting, dispense an interchangeable pharmaceutical product other than the one prescribed, if the interchangeable pharmaceutical product is listed as an interchangeable pharmaceutical product in the Manitoba Drug Standards and Therapeutics Formulary, and is lower in cost than the drug prescribed.

Cost.

- 46(3) No person shall knowingly supply an interchangeable pharmaceutical product under subsection (2) at a price in excess of the cost of the lowest priced interchangeable pharmaceutical product and the maximum dispensing fee set out in the Manitoba Drug Standards and Therapeutics Formulary.

No liability for substitution.

- 46(4) No action or other proceeding shall be instituted against a prescriber or licensed pharmacist on the grounds that an interchangeable pharmaceutical product other than the product prescribed was dispensed in accordance with this section.

Information noted on prescription.

- 46(5) Every person who dispenses a drug pursuant to a prescription shall ensure that the following information is included on the prescription:

- a. The name and address of the person for whom the drug is

- prescribed;
- b. The name, strength (where applicable) and quantity of the prescribed drug;
 - c. The directions for use, as prescribed;
 - d. The name and address of the prescriber;
 - e. The identity of the manufacturer of the drug dispensed;
 - f. An identification number or other designation;
 - g. The signature of the person dispensing the drug, and where different, also the signature of the person receiving an oral prescription;
 - h. The date on which the drug is dispensed;
 - i. The price charged.

Records to be retained.

46(6) The records required under subsection (5) shall be retained in the possession of a pharmacist dispensing a drug for not less than six years after the date the drug is dispensed.

Identification markings.

46(7) The container in which the drug is dispensed shall be marked with:

- a. The identification number that is on the prescription;
- b. The name, address and telephone number of the pharmacy in which the prescription is dispensed;
- c. The identification of the drug as to its name, its strength and its manufacturer, unless directed otherwise by the prescriber;
- d. The name of the owner of the pharmacy;
- e. The date the prescription is dispensed;
- f. The name of the prescriber;
- g. The name of the person for whom it is prescribed;
- h. The directions for use as prescribed;
- i. The price charged for the prescription; and
- j. The quantity of the drug dispensed.

Disclosure of records.

46(8) The Minister of Health and Social Development may require any person operating a pharmacy to make available to him any information from records required to be kept under this Act.

Commencement of Act.

3. This Act comes into force on a day fixed by proclamation.

Exhibit C.8Exchange of Letters Between Manitoba
Pharmaceutical Association and Premier Schreyer

Dear Mr. Schreyer:

On Thursday, June 7th, 1973 you published an advertisement on Page 25 of the Winnipeg Free Press. This advertisement was headed "This is Where We Stand on Health Services."

In the section titled: "Prescription Drugs" reference is made to the fact that ... "eighty percent of all prescription drugs in excess of fifty dollars per year will be paid to all those sixty-five years and over." We feel that the word "all" is inaccurate and misleading. Our Associations have been led to believe that only certain prescription drugs will be allowable for payment, viz: Narcotic Drugs, Controlled Drugs, (Schedule G of the Food and Drugs Act) and Pr. Drugs (Schedule F to the Food and Drugs Act and Regulations) as well as those drugs in Schedule A Part 1 of the Manitoba Pharmaceutical Act. Ref. Bill 44, Sec. 9 (1)e. Many of the citizens of Manitoba who are over sixty-five years of age are firmly convinced that all drugs on prescription will be covered and have been deluging Pharmacists with question on this matter. We feel it so grossly unfair to our senior citizens that they should be so misled by the provincial government.

Statistics show that approximately thirty percent of the medication prescribed in this province would not be covered under the terms of Bill 44. These would include some drugs used in the treatment of such conditions as arthritis, asthma, vitamin deficiency, diabetes, allergies, ulcers, urinary tract infection which are common conditions of senior citizens.

Further, the advertisement stated that "Legislation has been passed which will enable Pharmacists to dispense prescription drugs, of equal quality, at a lower cost to you."

This statement in itself is accurate, but it neglects to mention that the legislation has not yet been implemented. The citizens of Manitoba are again being misled since the statement infers that a lower cost service is already available.

The onus for explaining the true facts in relation to the above items is therefore on the shoulders of the Pharmacist when it should be the direct responsibility of the Government.

We request that these misleading statements be corrected immediately. Not only would a prompt correction be appreciated by our Associations but, we are sure, it would be a service to our elderly citizens as well as to other residents of our province.

Notwithstanding the above comments, we would like to emphasize

that our Associations are in favour of the principle of subsidization of prescription drug costs for all citizens who are over sixty-five years of age. But, we question how many persons will, in fact be eligible for assistance when only eighty percent of the cost is paid in excess of fifty dollars per year.

It is also the contention of our Associations that in the final analysis, the public of Manitoba can best be served by a comprehensive pharmacare program covering all citizens of Manitoba. The introduction of such a plan has been advocated by the Manitoba Pharmaceutical Association for several years and our Associations are ready to co-operate with any government in implementing such a plan.

Yours truly,

W.J.C. Blackwood, President
Manitoba Pharmaceutical Association

Steward G. Wilcox, Chairman
Manitoba Society of Professional Pharmacists

cc. Mr. I. Asper
Mr. J. Froese
Mr. S. Spivak

The following letter was received in the M.Ph.A. office from the Premier, June 21, 1973.

Gentlemen:

In your letter of June 12th you claim that the Provincial government is misleading our senior citizens with advertising relative to the new Pharmacare program which comes into effect July 1st.

I have stated publicly that your statements are both mischievous and dishonest; all drugs which must be obtained on a Doctor's prescription will be paid for under the terms of this new program. It has never been intended that Pharmacare should be a form of assistance to Pharmacists but rather that it should benefit those people who are now in their Golden years. It is not my intention to have the public purse pay for over-the-counter or patent medicines, which can be obtained without a prescription from physicians.

Furthermore, a supplementary program for all Manitobans affected with chronic disorders is now being established in order that these people, regardless of age, receive benefits under the Pharmacare program. I refer you to the Speech from the Throne of this year whereby an assistance program was announced for those who require heavy medication due to chronic illnesses.

You also suggest that I have been misleading the public of Manitoba when referring to legislation enabling pharmacists to substitute prescription drugs of equal quality at a lower cost. As stated earlier in May by the Minister of Health, the Drug Standards and Therapeutic Committee is working diligently on an interchangeable drug formulary which is to be published this year thus making possible for this legislation to be implemented. This legislation is not in force, nor do we infer that it is -- the words are clear in the claim that "Legislation has been passed which will enable pharmacists to dispense prescription drugs, of equal quality, at a lower cost to you."

I agree that our aim should be to provide a comprehensive pharmacare program covering all citizens of Manitoba. This will only be accomplished however when the high cost of prescription drugs is curtailed. I am alarmed at this situation and agree with the Harley Commission that an unusually high dispensing fee is one factor responsible for the maintenance of these exorbitant costs.

Surveys conducted by the Department of Health and Social Development in fifty-two northern, rural, and Winnipeg pharmacies for twenty-four tablets of the brand name drug "Megacillin 500" show the prescription cost to the purchaser from a dollar sixty to three dollars and ninety-five cents. The higher cost of three dollars and ninety-five cents represents 247 percent over the lowest cost and a 145 percent increase over the average cost of two dollars and seventy-two cents. The average cost representing a 170 percent increase over the average lowest cost. Based on the manufacturer's selling price to all retail stores in Manitoba regardless of purchasing power of these

stores our studies indicate that Manitoba pharmacists charge a dispensing fee, of anywhere between fifty and eighty percent of the retail price. Happily several dispensaries are at the lower end of the scale and I am prepared to publish this information if you wish. Similar results have been obtained with the purchase of Valium 5 mg tablets where the dispensing fee has been even higher than that for Magacilin 500 tablets.

Whilst on the subject of dispensing fee I am aware that nursing homes and social allowance prescriptions have been the subject of strong discussions recently. I would be grateful if you would assist in agreeing to a modest ninety cents to one dollar fee for these services in the Cities in order that you may demonstrate how serious you are with your concern for not only our senior citizens but also our other fellow Manitobans.

In rural areas, pharmacists should be used professionally at the retail, nursing home, senior citizen home and hospital level where application and their remuneration would be accordingly.

Failing such consensus, it would, in Winnipeg, be possible to implement other systems which might satisfy the end users both with professional services as well as with economies of scale.

Another point which relates to the high cost of medication is a remark that your registrar made in his annual report which says: "Probably the most frequent problem we encounter in the office is trying to explain to an irate member of the public a difference in price -- sometimes as much as six dollars a prescription -- from one Pharmacy to another."

I am also alarmed by another report submitted this time by your Inspector at your recent annual meeting whereby it is clearly stated that "only a handful of pharmacies, in Manitoba, fulfilled all the Minimum Standards." Because of my great concern for the health of all Manitobans, I have upon reading the above remarks asked the Attorney-General and Minister of Health to investigate this statement in order that all of us be assured that a reversal of the existing situation might occur immediately.

Should my government be re-elected I would propose sweeping changes to the Pharmaceutical Act which would include not only the marketing section of pharmacy, i.e. advertising the cost of prescription and dispensing fee, consumer participation in your council, but also the insistence that professional competency in pharmacy along the lines of the document I am attaching for your information be made mandatory prior to practising privileges being accorded to present and future pharmacists in the province.

I am pleased to advise the people of our province of my remarks
to you prior to June 28th.

Sincerely yours,

Edward Schreyer.

APPENDIX D
SUMMARY OF POINT OF
ACTION BY DRUG
INDUSTRY MANAGERS

Exhibit D.1Points of Action by the Manitoba Pharmaceutical Association

<u>Stage</u>	- (group to whom action was directed is indicated in brackets)
1. Societal Need	
2. Recognition	- had very close contact with the previous government (bureaucrat-politicians)
3. Articulation	
4. Decision to Proceed with Legislation	- attempted to contact government representative (politician-bureaucrat) - letter of complaint to Premier about not being contacted re: Klass Committee establishing (politicians) - mass protest meeting at Viscount Gort (public-politicians)
5. Determination of the Nature of the Legislation	- submission to the Klass Committee (bureaucrats)
6. Drafting of Legislation	
7. Legislative Consideration	
1st Reading	- supplied information to opposition members. (politicians)
2nd Reading	
Committee	- attended meetings but no submission made (politicians)
3rd Reading	- talked with opposition MLA's (political)
8. Regulations	- submitted names, on request, for people to be included in the formulary Committee (bureaucrats) - submission of a brief to the government (politicians) - submission of a brief to the Formulary committee (bureaucrats) - letter to Premier Schreyer during 1973 election campaign (public-politicians)

Exhibit D.2Points of Action by the Pharmaceutical
Manufacturers Association of Canada

- | <u>Stage</u> | - (group to who action was directed is indicated in brackets) |
|---|--|
| 1. Societal Need | |
| 2. Recognition | |
| 3. Articulation | - presentations to a number of different agencies defending the industry (politicians-bureaucrats) |
| 4. Decision to Proceed with Legislation | |
| 5. Determination of Nature of Legislation | - confidential brief to the Klass Committee (bureaucrats) |
| 6. Drafting of Legislation | |
| 7. Legislative Consideration | |
| 1st Reading | - letter sent to Manitoba Medical Association (doctors) |
| 2nd Reading | - supplying information to opposition MLA's (politicians) |
| Committee | - presentation suggesting changes in the bill (politicians) |
| 3rd Reading | - phone contact with René Ghartier (bureaucrats) |
| 8. Regulations | - withholding information |

APPENDIX E
REFERENCE MATERIAL
FOR MINING POLICY
CASE.

Exhibit E.1Recommendations of the Kierans' Report on
Mining Policy in Manitoba

"I would, therefore, recommend to the government of Manitoba a new resource policy that will place the responsibility for all future development of Manitoba's resources firmly in the hands of the public sector as being the only effective manner in which the people of Manitoba can be sure that the value of the depleted resources remains in Manitoba. A fundamental aim of such a policy shall be the repatriation by the Crown of all existing resources leased to the private sector and that a period, not exceeding ten years, be granted as sufficient to accomplish the transfer in an orderly fashion."

"Such a program will require changes and improvements in existing policies both for the long-term and the transition period."

"For the long-term, I recommend that:

1. The Manitoba Mineral Resources Ltd. be given an adequate budget to pursue an active and aggressive exploration program in Manitoba, the size of such a budget to depend upon the extent of known ore bodies and the government's assessment of the proper pace at which resources should be developed.
2. The Government of Manitoba abandon the practice of assigning mineral rights to the private sector for exploration, mining and development purposes and that it enact legislation forbidding the transfer of existing exploration reservations, mining claims and leases. Upon termination, existing rights would revert to the Crown.
3. Crown corporations be created as the decisions to develop new ore bodies are taken by Cabinet, such decisions resting not only upon present profitability, the difference between costs of output and selling price, but also a careful assessment of the economic choice between development now and in the future. The operations of the crown corporations should be confined to mining and milling ores to the primary stage.

"For the ten year period of transition, which is frankly designed to remedy the errors and mistaken policies of the past, I recommend that:

1. A property tax on all reserves held upon existing leases be imposed. It is extraordinary, to repeat, that mineral reserves, of all the forms of private property and wealth, should be exempt from taxation. Farm land and urban land alike carry their share of heavy municipal and school taxes but the billions of dollars of mineral reserves appropriated by corporations contribute nothing at all to the general progress and improvement of the community. If land were free of tax, the rich could quickly

accumulate vast holdings and grow richer, as Mill pointed out 135 years ago, 'as it were in their sleep, without working, risking, or economizing.' Free of property taxes, the resource giants can gain control over and freeze reserves for decades and even generations to come, thus aiding and encouraging concentration and monopoly.

The tax on reserves should be imposed at a rate that will force the pace of repatriation, the return on excess reserves to the Crown by the end of the tenth year. This rate can be determined in consultation with the industry after they have declared the value of their existing reserves or the portion thereof that can be developed within the ten year period. More intensive mining during the ten year period may be expected but it will be limited by existing capital facilities, the fear of oversupplying the market and consequent price declines and the need to maintain proportionate levels of production in all the political jurisdictions where they operate. Such additional exploitation as may occur will be a small price to pay for correcting the errors of the past. After the ten year period, ores can be supplied to the smelting and refining operators at market prices by the Crown mines.

2. The present fifteen percent mining royalty tax based on net income be abolished and that the government replace it with a fifteen percent mining tax based on the value of annual output. A fifteen percent tax on volume will not recover all economic rent but, together with the property tax on reserves, will capture a larger percentage than the present royalty tax based on income.
3. The province increase the mineral acreage tax to one dollar per acre on all mineral rights privately owned. The purpose of this tax is to speed the repatriation of privately owned mineral rights to the Crown, not to increase revenue.
4. The province impose an acreage tax of one dollar per acre on all existing leases covering prospector or exploration reservations and mining claims. Again, the primary purpose is not to increase revenue but to speed the return of all mineral rights to the province.
5. The Mineral Exploration Assistance Act be abolished since all future exploration will be carried on by the Crown.

"Present resource policies are no longer adequate when judged either by the significance that was attached historically to the importance of resources in promoting provincial growth and development or by the new realities, the changes that have occurred in the structure of the industry. The recommendations simply reflect the need to bring policy into line with the changes that have created autonomous, self-perpetuating corporate organizations that operate outside the social and political environment. It is obvious that, in a period of change, the government must be concerned with the

possibility of confusion and political uncertainty. We believe that a ten year period will give industry sufficient time to adapt. Both sectors will have an interest in the fullest discussion and profit from an orderly transition to the new policies."

Two basic premises which underlay the recommendations were, (a) that the mineral resources in Manitoba were owned by the people of Manitoba, and (b) the people were not receiving a sufficient return on these resources.

Exhibit E.2Recommendations from Report of the Task
Force on Manitoba Minerals Policy

The following are recommended as critical components of a new and consistent minerals policy for the Province of Manitoba:

1. That the government ensure effective utilization of its minerals by committing itself to a long run minerals exploitation plan;
2. That the Mines Act and Regulations be appropriately revised, amended and consolidated; that full disclosure of all information be required by government, as deemed necessary from time to time; and that the revised Act/Regulations reflect meaningful performance requirements;
3. That a comprehensive exploration and/or development and/or production plan for any new or revised mineral undertaking be submitted to government to ensure that it is consistent with publicly stated government policy. Production licences would be issued only upon government approval;
4. That all fees be revised to cover government costs and administration;
5. That the government undertake discussions with the appropriate mining companies in order to obtain an understanding of the economics related to the present out-of-province processing of approximately 100 million pounds of both zinc and copper with the long run intention of undertaking this processing in-province;
6.
 - (1) That the government undertake to design, implement and administer a flexible volumetric tax to replace the existing tax system;
 - (2) That in the interim, before the new taxation system is designed and implemented, the existing royalty rate be raised to realize up to thirty million dollars of revenue annually, having regard to company profits during the years 1970, 1971 and 1972;
7. That the provincial government establish a mechanism for the future development of Manitoba's mineral resources; as reflected in Section 9.4.6, pp. 317 to 319, embracing the following:
 - (1) The government determination of a long run minerals policy designed to ensure the effective management of the province's minerals to meet provincial needs;
 - (2) The Department of Mines, Resources and Environmental Management be assigned the responsibility for designing

the necessary regulations required to implement the publicly stated government policy, with emphasis to be placed on

- a) full disclosure; and
- b) realistic performance commitments;

- iii) The Department of Mines, Resources and Environmental Management be responsible for implementing mineral policy, and regulating the mineral industry;
- iv) The Agency to be the principle mechanism for all new mineral exploration and/or development and/or production wherein the private sector at the option of the government may be permitted to participate, provided its proposed activities were consistent with publicly stated government objectives;
- v) The Agency would have the right to participate in all future private sector exploration and/or development and/or production plans. (Legal implications associated with government participation in future private developments must be fully investigated.)

Exhibit E.3Mr. Sidney Green's Statement on Mineral
Policy, March 21, 1974

The extent to which the people of Manitoba receive benefits from the development of their mineral resources is a matter to which this government has given most serious attention. After taking preliminary steps to have more public involvement in mineral resource exploration, Professor Eric Kierans, a former president of the Montreal Stock Exchange and a former Minister in the Liberal administration of the Government of Quebec and the Government of Canada, was assigned the task of studying existing policies and making recommendations. Mr. Kierans completed his report which was tabled in the Manitoba Legislature, in February 1973.

Following publication of the Kierans' report the Manitoba Government examined the report and considered the practicality of implementing all or any of Kierans' recommendations. The report on mineral policy in the Province of Manitoba, together with its recommendations emanating from the Kierans' report, was further reviewed by Cabinet. Although this analysis is an in-house document, the Government intends to table an edited version because of public interest in this very important matter. However, this will be so done without prejudice to the establishment of any precedent. Contents of the report which relate to matters ordinarily considered confidential as relating to individual firms and other purely internal material have been deleted.

Following receipt of the report the policy makers of the Province of Manitoba, namely, the Cabinet, held extensive discussions which were a prelude to the issuance of this policy statement.

The Government of Manitoba has determined on the following policy objectives relative to mineral development within our province:

1. The people of Manitoba must receive revenue from existing mineral developments consistent with a fair return as the owners of the resource.
2. The existing private sector operators must be able and permitted to receive a fair return on their invested capital commensurate with the nature of their undertakings.
3. The people of Manitoba are entitled to receive a fair share of any added value or economic rent accruing to their mineral resources because of scarcity and/or the increased value of the minerals which are unrelated to the immediate costs of production.
4. In the future the people of Manitoba will take a more active role in the exploration, development and secondary processing of their mineral wealth in order to capture their fair share of the wealth which accrues from the development of such resources.

5. The people of Manitoba must jealously guard their resources which have not to date been turned over to private corporations and individuals, and take advantage of their ownership to obtain a real opportunity to participate in their development.
6. The private sector now engaged in the mineral industry must conduct its activities more consistent with overall social and economic objectives of the province of Manitoba and disclosure of information relative to support of such objectives must be made readily available to government.

It is self-evident that to realize the above objectives certain changes will have to be made, both to the legislative and administration policies now in existence in the Province of Manitoba. These changes will be made in such a way as to make a distinction between existing operations and future operations. The Government recognizes that existing operators have the right to continue their operations in such a way as to realize a fair return on their capital investment and to have a reasonable opportunity of realizing some of the expectations they had when embarking upon mineral exploration in the Province of Manitoba. On the other hand, insofar as the future development is concerned, our policy will transfer to the people of Manitoba a meaningful participating role in exploration and development and thereby afford to the public a greater opportunity of realizing the type of return that has hitherto been largely the domain of the private sector.

It should be emphasized and recognized that this new policy involves the people of Manitoba in the "risk-taking" ventures of the mineral industry. We are of the opinion that the people have the boldness and the will to pursue such activity on the same basis as it has been pursued by private enterprise, with the ultimate expectation that they will be entitled to the kind of return that private enterprise has harvested from the Manitoba rural resources in the past.

Consistent with this expressed view, the government of the province intends to pursue the following course of action:

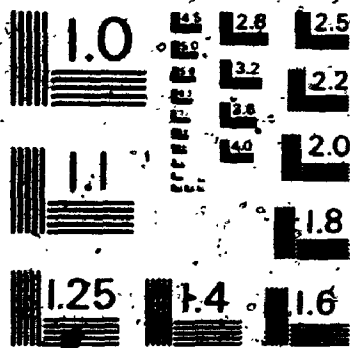
I. Taxation

1. The existing level of royalties and taxes charged to existing operations will probably remain relatively unchanged. It is understood that such royalties and taxes are reasonably competitive with those in existence in other parts of Canada. They were based on rates that, presumably, could reasonably be expected to have been one manner for the people of Manitoba to receive some share of the wealth generated from the mineral resources. It is intended to provide greater flexibility in establishing new royalty rates by following our own practice with regard to oil royalties, the practice of Saskatchewan, Alberta and British Columbia, which permits royalty rates to be altered from time to time by the Lieutenant-Governor-in-Council. This will also enable

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MICROCOPY RESOLUTION TEST CHART
NATIONAL BUREAU OF STANDARDS - 1963-A

the government to adjust existing royalties to realize additional revenues in the event that new forms of taxation hereinafter referred to cannot be expeditiously implemented.

2. A new tax will be introduced with the specific intention of providing the people of Manitoba with a fair share of the economic rent accruing to our resources resulting from their scarcity and enhanced value and not resulting from an increased cost of production. Recent events have made it quite clear that prices in many commodities, and in particular natural resources, have risen without relation to their cost of production. This phenomenon has resulted in returns to the private developers of such resources far beyond the kind of return which was contemplated by the original investment. In such cases the returns become the reward, not of enterprise or initiative, but merely the fact that they were developing the resource at a particular moment in time. The Government of Manitoba is of the opinion that the real owners of the resources, namely, the people of the province, are entitled to a realistic share of these unpredicted enhanced values of their resources. To this end the Government of Manitoba intends to introduce a tax related to a realistic share of these unpredicted enhanced values of their resources. To this end the Government of Manitoba intends to introduce a tax related to price increases in the basic products presently being exploited by our mineral resource industry. This new tax will be calculated to permit the people of Manitoba to obtain a percentage of any price increase beyond basic levels to be established. The basic levels will be established in such a way as to be fairly certain that a reasonable return on original investment capital will be protected. Beyond such reasonable return on original investment which the government regards as a fair entitlement of any investor, the people of Manitoba will share the benefits of price increases. The base prices referred to and the percentage of return to the people will be established in due course. In order to ensure that the imposition of this new tax will not result in companies ignoring or abandoning lower grade ores, it is intended that the tax will be modified in such a way as not to apply where ore grades would not economically justify their exploitation in the absence of such modification. It is also intended that this public benefit from increased prices will be levied in such a way that rising costs of production will be taken into account.

II. Exploration and Development

The Government of Manitoba intends to play a much more active role in the exploration and development of its natural resources. It is only in this way that the people have the potential of ultimately obtaining for themselves the greatest opportunity to benefit. To this end the Province of Manitoba will require any future intended exploration and development of mineral resources by the private sector to be reviewed by a public agency, with the option of the agency to participate up to a maximum of fifty percent in such exploration and/or development program. In the event the province elects to

participate, the people of the province will be obliged to finance their share of the investment in the program. It is emphasized that, this will not mean that the public will participate up to a fifty percent or, indeed in any amount, in such a program. It may elect not to participate because of financial or other considerations. What is important is that it will have the option to proceed, in which case it will be required to share the cost of such program and will thus be entitled to share its earned benefit at some percentage.

The Province of Manitoba is mindful of the fact that some will say that this new mineral policy may make it unattractive for some private investors who conducted activities in the Province to continue to do so. This may or may not occur. In this regard, this statement emphasizes that the Province is committed to maintaining mineral development activity at a level equal to or greater than its present level. Any retreat in terms of private activity will be replaced by an advance in public activity. Thus a planned level of mineral development activity will continue regardless of the position of private sector involvement.

III. Resource Management

In order to expedite effective planning, new regulations will be enacted requiring mining corporations to provide a full accounting of their operations in Manitoba. They will require full disclosure to government of mineral ore reserves, the method of calculating same, technical information, results of diamond drilling, production objectives, and such other information as may be deemed advisable. Such regulations will be designed to recognize private company information which in the competitive field as between companies is held confidential.

IV. Greater In-Province Processing

At the Western Economic Opportunities Conference in Calgary in July 1973, the four western provinces requested that the federal government take steps to encourage greater increased employment and other economic benefits. In addition to creating new jobs, it has also been recognized that further processing within Manitoba would assist our province to gain greater independence in the management of its resources. Consequently, in-province processing will be a major factor in the province's long-range resource development planning. Negotiations will continue with the federal government and the mining corporations to establish processing operations within Manitoba wherever practicable.

V. Conclusion

The foregoing policy statement is our government's attempt to expedite a new direction relative to development of natural resources. It represents an attempt by the people of Manitoba to embark on a bold and imaginative program heretofore undertaken only by the private sector. Private sector rewards have been a result of private sector

initiative and governments representing the people have been overly generous. Public sector rewards can legitimately be just as handsome to the public if the public sector is willing to employ imagination and initiative. The present Government of Manitoba wishes to become that agency through which the public can give effect to public imagination and initiative.

It is emphasized that this policy statement attempts to preserve the reasonable expectations of those private sector industries who are now carrying on business in the province of Manitoba. It also attempts to improve the future for the public as a whole. It is hoped, indeed we have every expectation that this new thrust will result in both equity and opportunity for the people as a whole to realize a greater legitimate return from their natural resources.

Exhibit E.4Brief Presented to Government of Manitoba by
the Mining Association of Manitoba, March 22, 1974The New Mineral Tax — Can it Work?

Yesterday, March 21, 1974, the Manitoba government issued three separate statements of direct interest to the Mining Association of Manitoba: 1) the Honourable Mr. Green's long awaited statement regarding mineral policy; 2) the Honourable Mr. Cherniack's annual budget; and 3) the report of the government's task force on mineral policy.

Resource Policy Objectives as
Stated by Mr. Green

The Mining Association is pleased to note the following government objectives as outlined by the Honourable Mr. Green in his mineral policy statement:

1. Existing private sector operators must be able and permitted to receive a fair return on their invested capital and to have a reasonable opportunity of realizing some of the expectations they had when embarking on mineral exploration in the Province of Manitoba.
2. Changes to the legislative and administrative policies now in existence will be made in such a way as to make a distinction between existing operations and future operations.
3. It is emphasized and recognized that increased government participation in exploration and development must involve the people of Manitoba in the "risk-taking" ventures of the mineral industry.
4. Existing levels of royalties and taxes charged to existing operations will probably remain relatively unchanged since they are at least competitive with those in existence in other parts of Canada.
5. Any new mineral tax will only be established in such a way as to be certain that a reasonable return on original investment capital will be projected.
6. Any new mineral tax will be modified in such a way as not to apply where ore grades would not economically justify their exploitation in the absence of such modification.
7. Any new mineral tax will be levied in such a way that rising costs of production will be taken into account.

8. In the event the province elects to participate in future exploration and development, the people of the province will be obliged to finance their share of the investment programme.
9. The Province is committed to maintaining mineral development activity at a level equal to or greater than its present level.

The above nine policy objectives provide a framework within which a sensible mineral policy can indeed be achieved.

The problem that now faces both government and industry is "How to achieve these objectives?"

Reaction to any of the specific new proposals suggested in the Minister's policy statement must await publication by the government of the precise implementation details.

The Budget -- Is It Consistent with Government Resource Policy?

The Honourable Mr. Cherniack's budget, on the other hand, raises a number of questions that should be of urgent concern to the government.

Mr. Cherniack proposes to implement a new "flexible volumetric tax" on mineral production -- a tax which his officials estimate will generate an additional fifteen million dollars in government revenue -- a tax which he proposes that the Cabinet, without legislative debate or approval, should be able to alter at any time -- a tax which would apparently permit the Cabinet to discriminate, without any legislative groundrules, as between different companies and mines.

At first glance, it is difficult to see how Mr. Cherniack's budget proposals are consistent with Mr. Green's mineral policy objectives.

1. How can existing private firms be fairly certain of realizing a fair return on their capital investment under a tax policy that permits the Cabinet -- without clear legal or legislative guidelines -- to at any time change tax rates applying to any company?
2. If the government taxes away all the profits during the good years, how will private companies achieve adequate returns during the bad years -- is some form of subsidy proposed?
3. What does the government believe to be a fair and adequate return to the private companies -- a fifteen percent rate of return on capital as proposed by Eric Kierans?
4. What is a "flexible volumetric tax?" The task force report provides an academic discussion of a theoretical tax along these lines -- but is it practical? Will it achieve the government's

objectives without creating enormous uncertainty, bureaucracy and costs? Are there not more efficient ways to proceed?

5. Does the government really want to institute a tax that the Cabinet alone could change at any time for each separate company -- won't such a procedure create immense potentials for seeming abuse, friction and wasteful debate?

The Mining Association of Manitoba cannot at present comment on the new tax until such time as the government explains exactly what is proposed.

At the moment, however, the Association is puzzled as to why the government has selected such an unproven and complex approach.

The Kierans' Report certainly warned against adopting this type of tax proposal.

Is the Province Willing to Risk?

Thursday afternoon Mr. Green announced that the Province was indeed willing to risk public money in order to promote future Manitoba mining.

This policy objective is consistent with the Kierans Report's belief that governments will wisely invest any profits earned from mining, rather than to throw such profits away into short term tax relief schemes.

Thursday evening, however, Mr. Cherniack announced that none of the revenue earned from the proposed new mineral tax would be reinvested in Manitoba Mining?

In this respect, it must be asked whether Provincial Finance policy is consistent with Provincial mineral resource policy?

Everyone must agree that new mines will only be opened in Manitoba in response to major new investments in exploration and development.

The fourteen million dollars estimated to be recovered from the new tax would have gone a long way toward assisting the people of Manitoba to promote future mineral development in this province.

The Task Force Report

The Task Force Report appears to be largely a statistical and academic review of Manitoba's mineral industry -- very little is offered by way of a critique of the Kierans' Report, except to reject Kierans' proposal to have all exploration and mining take place only in the public domain.

It is disturbing, for example, that no attempt is made in the Task Force Report to evaluate the statistical evidence as to whether Manitoba mining firms are indeed achieving so called economic rents.

The Association has published an extensive analysis of the Kierans' Report, including evaluation of confidential data on industry revenues, costs, profits and rates of return.

This analysis which was made available to the Task Force long before Christmas of last year, indicated that the Manitoba metal mining industry did not enjoy significant economic rents during the 1968-1972 period, even under the Kierans' Report assumptions.

The Task Force Report fails to comment upon, let alone refute, the many significant points and questions raised by the Association's earlier analysis.

In advocating a new complex, flexible volumetric tax, the Task Force Report appears to reject the Association's proposals for a joint venture approach to future Manitoba mining.

These matters are of concern to the Association.

Final commentary on the Task Force Report, however, must await clarification of the government's new proposals.

Exhibit E.5Mining Association Working Papers
on Task Force ReportResponse to Recommendations1. Minerals Exploitation Plan

- in that this type of control seems to be on its way, we would be better to argue for it to be considered in a national context.

2. (a) Full Disclosure

- this should be welcomed as an opportunity to educate the government and its civil servants.

(b) Performance Requirements

- it should be possible to convince the government that highgrading and layoffs are not important areas of concern. Their examples in these areas can easily be discounted as to the importance or relevance.

3. Publicly Stated Government Policy

- what more could be asked.

4. Processing in Manitoba

- agree that discussions are required to understand economics.
- the operation of an uneconomic smelter or refinery should not be a responsibility of industry.
- if government operated, competitive rates should be charged.

5. Flexible Volumetric Tax

- any system of royalties accompanied by strict operating controls will be self-defeating in the long run, and industry should agree to assist in the development of a better mechanism for enabling government to achieve its objectives.

6. v. Government Participation

- okay at exploration stage.
- involvement at later stages must be based on the understanding that a premium entry fee is required to allow for discovery costs and/or lower risk situations.

Proposed Tax System

- if strictly controlled, no incentive remains to do better than controlled minimum.
- need system that will provide operator with maximum incentive to sell at best price possible and to mine efficiently.
- system must also offer some chance for better than minimum returns to encourage exploration expenditures which is high money being spent on the basis of hope well in advance of any possible rewards being realized.
- system must ensure that mining companies are able to (1) earn an appropriate profit on their exploration expenditures; (2) earn an appropriate profit on their mining investment; and (3) participate equally in the economic rents earned on the deposit while, at the same time, not working to the detriment of the resource.
- best chance of achieving the above is through a modification of the current tax system.
- the mining industry should be able to convince the government that mine operators have not and will not destroy or waste natural resources in an unjustified manner.
- it is proposed that existing (normal) tax laws will apply as long as a company (to be defined) does not earn more than fifteen percent on its investment or earns less than twenty-percent of its operating cost.
- if earnings exceed both of the above limitations, the tax surcharge on the difference will be

	<u>Range</u>	<u>Surcharge</u>
return on investment -	15-20%	25%
-	20% plus	50%
margin on costs -	20-25%	25%
-	25% plus	50%

	1973 Earnings as a % of			1972 Earnings as a % of		
	Costs	Net Assets	Equity	Costs	Net Assets	Equity
Wesfrob	35%	25%			-22%	-22%
United Keno	36	25			- 8	- 8
Indusmin		11				
Giant Yellowknife	42	40		16	16	16
Falconbridge Copper	114	55		40	29	29
Falconbridge - Consol.		8	19		1	2
Noranda					6	13
Cominco					4	6
Inco	27	11	18	7	6	10
Hudson Bay					5	8
Sherritt	23	15	24	3	4	7
Fortune Magazine Mining - 1st 500						10.1
All industrials - 1st 500						10.3

Exhibit E.6

Winnipeg Free Press Cartoon after
Withholding Bill 82

Winnipeg Free Press

"Western Canada's National Newspaper"

WINNIPEG, WEDNESDAY, JUNE 5, 1974

Pages 21 - 38 **

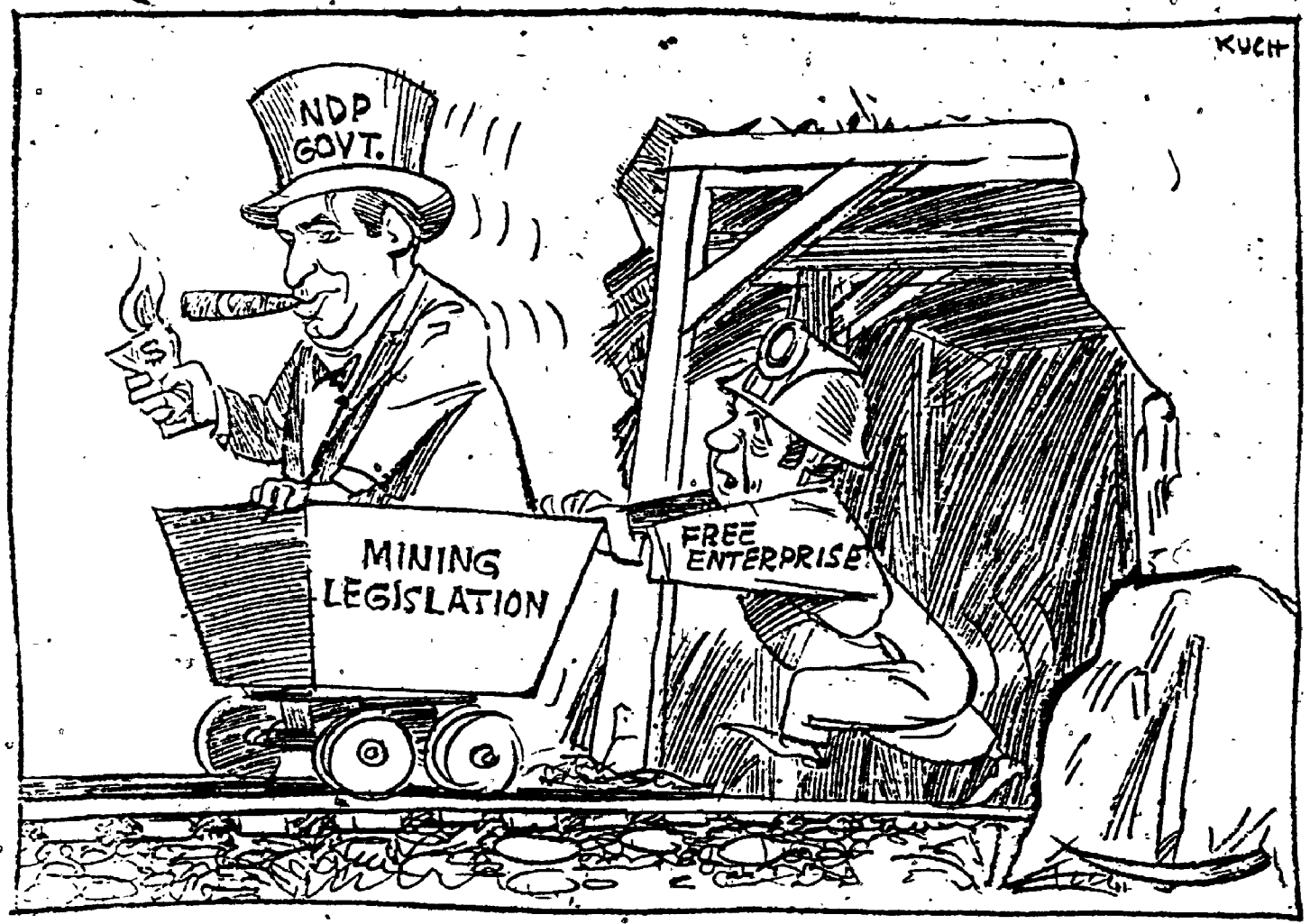


Exhibit E.7Press Release of the Mining Association of
Manitoba, Inc. Regarding Working with a
Government Review Committee

The Manitoba Mining industry today announced its priority objective to work with the provincial government in drafting "pioneering and innovative" policies for the development of Manitoba mineral resources.

In making the announcement, the Mining Association of Manitoba urged "immediate and concrete" action by the government in establishing an industry-government working group to translate stated public and private policies into "workable and clearly understood guidelines."

The great uncertainties as to the long-term development of mining in the province could, perhaps be made clear at last, said the industry.

The Association acknowledged the announcement of Mines, Resources and Environmental Management Minister Sid Green that Bill 82 would not be proceeded with during the current session. This temporary halt to a measure that contained many unworkable provisions was suggested by the Mining Association in recent private meetings with Mr. Green.

The Association warned of the very real problems inherent in the complex considerations of Bill 82. These problems should be the focus of the proposed group as Bill 82 contained stated government intentions and will appear in future government legislation.

The Mining Association suggested the full resources of the industry would be made available to the proposed joint working group.

FOR FURTHER INFORMATION, CONTACT Henry Bloy, Manager, Mining Association of Manitoba - 942-2789.

Exhibit 2.8

Material on Metallic Minerals Royalty Act
Distributed by the Government at Meeting of the
Mineral Advisory Committee, March 6, 1985

Metallic Minerals Royalty System

1. Opening Calculation.

$$\begin{array}{rcl} \text{Present Value} & 1973 & \text{Present Value of} \\ \text{of Undeprciated} & \text{Investment} & \text{Original Cost of} \\ & & \text{Depreciable Assets} \\ & & \text{Original Cost of} \\ & & \text{Depreciable Assets} \end{array} \times \begin{array}{l} \text{Undeprciated} \\ \text{Balance of} \\ \text{Depreciable} \\ \text{Assets} \end{array}$$

2. Annual Interest Base Calculation

$$\begin{array}{rcl} \text{Previous Year's} & \text{Current} & \text{Depreciation} \\ \text{Investment Base} & \text{Additions} & + \\ \times & + \text{to Depreciable} & \text{Proceeds from} \\ \text{Inflation Factor} & \text{Assets} & \text{Disposals} \\ & & \times \\ & & \text{Depreciation} \\ & & \text{Factor} \end{array} = \text{Investment Base}$$

3. Current Year's Royalty Calculation

$$\begin{array}{rcl} \text{Previous Year's} & \text{Investment} & \text{Profit} \\ \text{Investment Rate} & \times \text{Base Factor} & \text{Base} \end{array} = \begin{array}{|l} \text{Total Profit} \\ \text{Base Profit} \end{array} = \begin{array}{|l} \text{Incremental} \\ \text{Profit} \end{array}$$

¹The depreciation claim would be limited to twenty percent of the undeprciated balance.

$$\begin{array}{r} \text{Depreciation} \\ \text{Factor} \end{array} = \frac{\begin{array}{r} \text{Previous Year's} \\ \text{Investment Base} \end{array} \times \begin{array}{r} \text{Current Additions to} \\ \text{Depreciable Assets} \end{array}}{\begin{array}{r} \text{Previous Year's} \\ \text{Undeprciated} \\ \text{Balance} \end{array} + \begin{array}{r} \text{Current Additions to} \\ \text{Depreciable Assets} \end{array}}$$

³Profits would include those from the processing in Manitoba of metallic minerals mined in Manitoba.

⁴Any assets fully depreciated as of 1973 would be excluded.

Royalty Calculation for 1975Assumptions:

- Investment Base Factor is 20
 - Base Royalty Rate is twelve percent
 - Incremental Royalty Rate is thirty percent
 - 1975 profit subject to a royalty is \$1,000,000
- These rates are hypothetical

The 1975 Profit Base (P.B.) is determined by multiplying the 1974 Investment Base by the Investment Base Factor, therefore:

$$P.B. = \$2,124,000 \times .2 = \$425,000$$

The Profit Base will measure the maximum amount of profit which would be subject to assessment at the Base royalty rate, therefore:

$$\begin{aligned} \text{Base Royalty} &= \$425,000 \times .12 = \$ 51,000 \\ \text{Incremental Royalty} &= (\$1,000,000 - \$425,000) \times .30 = \underline{172,500} \\ \text{Total Royalty} &= \underline{\underline{\$223,500}} \end{aligned}$$

Incremental Profit x Incremental Royalty Rate = Incremental Royalty

Base Profit x Base Royalty Rate

= Base Royalty

Total Royalty

Operation of a Metallic Mineral Royalty System

This example illustrates the operation of a mining royalty system.

1973 Investment Base

Assume a hypothetical mining company with the investment details as follows:

Year	Investment ¹ at Cost (\$000)	Index ² Base 1973	Investment in 1973: (\$000)	Depreciation ³ (\$000) (Assume 10% straight line)
1965	500	.712192	702	
1966	3,000	.751163	3,994	
1967	100	.771776	130	360
1968	-	.773519	-	360
1969	-	.810441	-	360
1970	-	.844756	-	360
1971	1,000	.883459	1,132	460
1972	200	.921826	217	480
1973	-	1.000000	-	480
Totals	4,800		6,175	2,860

Assumptions

Investment at cost from 1965 to 1973 totals \$4,800,000. Depreciation is at ten percent of the original cost per year, and the maximum allowed is claimed. Production, and therefore allowances for depreciation, begins in 1967.

The 1973 Undepreciated Balance (U.B.) is found by subtracting the total claimed for depreciation from the total investment at cost, therefore:

$$\text{U.B.} = \$4,800,000 - \$2,860,000 = \$1,940,000$$

¹ In general, the investment would be as reported under the existing Mining Royalty and Tax Act but some assets previously disallowed would now be included. Any assets fully depreciated as of 1973 would be excluded.

² This index is derived from Statistics Canada 13-211, Fixed Capital Flows and Stocks, Gross Fixed Capital Formation in Mining (Including Milling), Quarries, and Oil Wells, total all components.

³ The depreciation would be as reported under the existing Mining Royalty and Tax Act.

The 1973 Undepreciated Balance, expressed in 1973 dollars to give the company's 1973 Investment Base. The information used is:

$$\frac{\text{Total Investment in 1973}}{\text{Total Investment at Cost}} \times \text{Undepreciated Balance} = \text{1973 Investment Base B}$$

i.e., $\frac{6,175,000}{4,800,000} \times 1,940,000 = \$2,496,000$

Yearly Investment Base Adjustment

In each year subsequent to 1973 the Investment Base would be adjusted for inflation, any new investment and any depreciation plus disposals.⁵

Assumptions

- 1974 inflation rate of eight percent
- 1974 new investment of \$100,000
- 1974 depreciation plus disposals of \$490,000

$$\begin{array}{r} \text{1974} \\ \text{Investment} \\ \text{Base} \end{array} = \begin{array}{r} \text{Inflation} \\ \text{Factor} \end{array} \times \begin{array}{r} \text{1973} \\ \text{Investment} \\ \text{Base} \end{array} + \begin{array}{r} \text{New} \\ \text{Investment} \end{array} - \begin{array}{r} \text{Depreciation} \\ \text{Factor} \end{array} \times \begin{array}{r} \text{4} \\ \text{Investment} \\ \text{Base} \end{array} + \begin{array}{r} \text{Disposals} \end{array}$$

Therefore,

$$\begin{array}{r} \text{1974} \\ \text{Investment} \\ \text{Base} \end{array} = 1.08 \times \$2,496,000 + \$100,000 -$$

$$\frac{(1.08 \times \$2,496,000 + \$100,000)}{(\$1,940,000 + \$100,000)} \times \$490,000 = \$2,124,000$$

$$\begin{array}{r} \text{4} \\ \text{Depreciation} \\ \text{Factor} \end{array} = \frac{\begin{array}{r} \text{Inflation} \\ \text{Factor} \end{array} \times \begin{array}{r} \text{Previous Years} \\ \text{Investment Base} \end{array} + \begin{array}{r} \text{New} \\ \text{Investment} \end{array}}{\begin{array}{r} \text{Previous Years} \\ \text{Undepreciated Balance} \end{array} + \begin{array}{r} \text{New} \\ \text{Investment} \end{array}}$$

⁵Beginning in 1975 the depreciation method would change from straight line to declining balance.

APPENDIX F
SUMMARY OF ACTIONS BY
MINING INDUSTRY MANAGERS

Exhibit F.1

Actions by Mining Industry Managers

1. Societal Need	- Knew civil servants (bureaucracy)	0
2. Recognition of Need	- Met and established contact with Len Evans after NDP election (politicians) - Meeting with Senior civil servants (bureaucrats) - Met with Green and Cherniack on numerous occasions on specific items (politicians) - Telephone contact with government (politicians) - Met with NDP caucus (politicians) - Public criticism of Kierans' report (public-politicians) - Met with Green (politicians)	5
3. Articulation of Demand	- Phone contact (politicians-bureaucrats) - Engaged Hedlin Menzies and Associates to prepare a report (bureaucrats)	2
4. Decision to Proceed with Legislation	- Presented brief - December 1973 (proposed joint ventures) (politicians-public) - T.V. show with Sid Green (public) - Met with minister before policy announced (politicians) - Presented a brief after policy announcement (politicians) - Got legal opinion on policy statement (legal)	5
5. Determination of the Nature of Legislation (Bill 82)	- Met with opposition representatives (politicians) - Met with Green and civil servants (politicians-bureaucrats) - Met with Wilson Task Force (bureaucrats)	20
6. Drafting (Bill 82)		0
7. Legislative Consideration (Bill 82)		0
5. (a) Determination of the Nature of Legislation (Bill 16)		20
6. (a) Drafting (Bill 16)		21
7. (a) Legislative Consideration (Bill 16)	- Contacts with civil servants and Mr. Green (bureaucrats) - Mr. Bloy's speech (public-politicians)	21